ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

VOL I.

REPORT

OF THE

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CORRIGENDA.

Page 83, paragraph 211, line 10, *for* ' paragraph 45 ' *read* ' paragraph 46 '.

Page 104, paragraph 5, last line, *for* ' reparation ' *read* ' preparation '.

Page 117, paragraph 53, line 12, *for* ' diffidence by inability ' *read* ' diffidence my inability '.

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

VOL. I.

REPORT

OF THE

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

THE ROYAL COMMISSION.

GEORGE R.I.

GEORGE THE FIFTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India, to

Our Right Trusty and Well-beloved Counsellor EDWARD HILTON YOUNG, Companion of the Distinguished Service Order, upon whom We have conferred the Decoration of the Distinguished Service Cross, Lieutenant-Commander, lately of Our Royal Naval Volunteer Reserve; and

Our Trusty and Well-beloved :—

Sir RAJENDRANATH MOOKERJEE, Knight Commander of Our Most Eminent Order of the Indian Empire, Knight Commander of the Royal Victorian Order;

Sir NORCOT HASTINGS YEELES WARREN, Knight Commander of Our Most Eminent Order of the Indian Empire;

Sir REGINALD ARTHUR MANT, Knight Commander of Our Most Eminent Order of the Indian Empire, Companion of Our Most Exalted Order of the Star of India, Member of the Council of India;

Sir MANECKJI BYRAMJI DADABHOY, Knight Commander of Our Most Eminent Order of the Indian Empire, Member of the Council of State;

Sir HENRY STRAKOSCH, Knight Commander of Our Most Excellent Order of the British Empire;

Sir ALEXANDER ROBERTSON MURRAY, Knight, Companion of Our Most Excellent Order of the British Empire;

Sir PURSHOTAMDAS THAKURDAS, Knight, Companion of Our Most Eminent Order of the Indian Empire, Member of the Legislative Assembly;

JAHANGIR COOVERJEE COYAJEE, Esquire, Professor of Political Economy and Philosophy in the Presidency College at Calcutta; and

WILLIAM EDWARD PRESTON, Esquire:

GREETING!

Whereas We have deemed it expedient that a Commission should forthwith issue to examine and report on the Indian Exchange and currency system and practice, to consider whether any modifications are desirable in the interests of India, and to make recommendations:

Now know ye, that We, reposing great trust and confidence in

do by these Presents authorise and appoint you, the said Edward Hilton Young (Chairman); Sir Rajendranath Mookerjee; Sir Norcot Hastings Yeeles Warren; Sir Reginald Arthur Mant; Sir Maneckji Byramji Dadabhoy; Sir Henry Strakosch; Sir Alexander Robertson Murray; Sir Purshotamdas Thakurdas; Jahangir Cooverjee Coyajee and William Edward Preston to be Our Commissioners for the purposes of the said inquiry:

And for the better effecting the purposes of this Our Commission, We do by these Presents give and grant unto you, or any three or more of you, full power, at any place in Our said United Kingdom of Great Britain and Ireland, or in India, to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission; and also, whether in our said United Kingdom, or in India, to call for information in writing, to call for, have access to and examine all such books, documents, registers and records as may afford you the fullest information on the subject, and to inquire of and concerning the premises by all other lawful ways and means whatsoever:

And We do by these Presents authorise and empower you, or any one or more of you, to visit and personally inspect such places as you may deem it expedient so to inspect for the more effectual carrying out of the purposes aforesaid:

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, or any three or more of you, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment:

And We do further ordain that you, or any three or more of you, have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do:

And Our further will and pleasure is that you do, with as little delay as possible, report to Us under your hands and seals, or under the hands and seals of any three or more of you, your opinion upon the matters herein submitted for your consideration.

Given at Our Court at Saint James's the Twenty-fifth day of August, One thousand nine hundred and twenty-five, in the sixteenth year of Our Reign. By His Majesty's Command.

W. JOYNSON-HICKS.

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

REPORT TO THE KING'S MOST EXCELLENT MAJESTY.

MAY IT PLEASE YOUR MAJESTY,

We, the undersigned Commissioners appointed to examine and report on the Indian exchange and currency system and practice; to consider whether any modifications are desirable in the interests of India; and to make recommendations; humbly submit to Your Majesty the following Report:—

I. INDIAN CURRENCY SYSTEM.

Historical Retrospect.

1. The history of Indian currency is fully summarised in the Reports of the Herschell, Fowler, and Babington-Smith Committees, and the Chamberlain Commission, and it is brought up to date in the memoranda on the subject prepared by the Secretary to the Government of India in the Finance Department and the Financial Secretary of the India Office which are printed in an appendix* to this Report. The whole narrative need not be repeated here. Our historical retrospect will be confined to a brief review of those facts and events of the past which chiefly influence the present and serve as a guide to the future.

2. Before 1893 India had a mono-metallic system with silver as the standard of value. In order to avoid the embarrassing fluctuations in the rate of exchange with gold standard countries, which were caused by the fall in the price of silver, it was decided in 1893, in accordance with the recommendations of the Herschell Committee, to close the mints to the free coinage of silver. The stoppage of silver coinage was followed by an appreciation of the rupee, and by 1898 it had reached the level of 1s. 4d. The rupee remained unlimited legal tender, and was the standard of value for all internal transactions.

3. The policy adopted in 1893, by the closing of the mints to the free coinage of silver, had for its declared object the establishment of a gold standard for India, and the Fowler Committee (appointed in 1898) was invited to consider how this object could best be secured. The relevant recommendation of the Committee was as follows:—

> Paragraph 54. "We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined

* Appendices Nos. 3 and 69.

and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

4. This recommendation was accepted by the Secretary of State and the Government of India, and the effective establishment of a gold standard based on a gold currency thus became the recognised object of the Government of India and its advisers. But the Government's first attempt to introduce gold into circulation was not a success, and the Indian Currency system developed in the years that followed along lines different from those foreseen in 1898. Gold never became a substantial part of the circulation. Apart from small change, the internal currency consisted almost entirely of tokens, one printed on silver, the rupee, and the other on paper, the currency note. Their value was maintained at 1s. 4d. gold (there was during this period no difference between sterling and gold) by the offer of the Secretary of State to sell bills on India without limit of amount at 1s. 4⅛d. and by the sale of drafts on the Secretary of State on occasions when owing to temporary variations in the currents of trade, exchange tended to fall below the 1s. 4d. level. The latter process was not, however, the subject of a statutory obligation, nor was it in practice carried out as a matter of course; e.g., the Secretary of State had to be consulted before offers of reverse remittance were announced, and the Government of India never went so far as to undertake to offer sterling drafts in all circumstances. The standard thus evolved was commonly known as a gold exchange standard, although in truth in so far as it amounted to a definite standard at all, it was a standard of sterling exchange. It was in operation at the beginning of the war in 1914.

5. The Chamberlain Commission, which was appointed in 1913 to enquire, among other things, whether the then existing practice in currency matters was conducive to the interests of India, reported *inter alia* as follows :—

Para. 223.—(iv) "The time has now arrived for a reconsideration of the ultimate goal of the Indian currency system. The belief of the Committee of 1898 was that a gold currency in active circulation is an essential condition of the maintenance of the gold standard in India, but the history of the last 15 years shows that the gold standard has been firmly secured without this condition.

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation.

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal needs of India consists of rupees and notes.

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint : provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail.

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency.

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged.

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling."

Thus, in effect, the Chamberlain Commission, in its recommendations, abandoned the ideal of a gold standard based on a gold currency, and accepted in its place an exchange standard with an excrescent currency of sovereigns not essential to the working of the system. Owing to the outbreak of the War, no action was taken on these recommendations.

6. The War of 1914-18 put the currency system of India, in common with those of all other countries, to a severe test. The price of silver rose to unprecedented heights, and the material of the silver token became worth more than its face value. The Government found it difficult to continue their unlimited offer of rupees at the long-established rate. There was a keen demand for Indian exports, and there were exceptional disbursements to be made on behalf of the British Government. Internal currency had to be in some way provided, and it could no longer be provided on the old terms. Confronted with these difficulties, the authorities allowed the rupee, so long anchored at 1*s*. 4*d*., to break loose from its moorings and follow the course of silver prices. The rate of exchange accordingly rose rapidly until it reached 2*s*. 4*d*. (sterling) in December, 1919.

7. The Babington-Smith Committee was appointed in May, 1919, when the rate was 1*s*. 8*d*., "to examine the effect of the War on the Indian Exchange and Currency

system and practice, ... to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to . . . . the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard." These terms of reference precluded the Committee from considering alternative standards of currency. The Committee accordingly directed its attention to the re-establishment of stability under the then existing exchange standard, a stability which had suddenly been overthrown by the unprecedented rise in the price of silver and by the divorce of sterling from gold. Taking into account the high range of silver prices and the importance of safeguarding the token character of the rupee they recommended the stabilisation of exchange at 2*s*. (gold). They further recommended that during periods of exchange weakness, the Government of India should be authorised to announce, without previous reference to the Secretary of State, their readiness to sell weekly a stated amount of reverse councils.

8. These recommendations were accepted by the Secretary of State. The publication of the Report, in February, 1920, coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2*s*. gold recommended by the Committee by the offer of reverse councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold, as shown by the dollar-sterling exchange. The rates for reverse councils offered by the Government thus varied from 2*s*. $3\frac{29}{32}d$. (sterling) to 2*s*. $10\frac{27}{32}d$. (sterling). By the Indian Coinage Amendment Act (Act XXXVI of 1920) the sovereign was made legal tender at Rs. 10. The attempt to hold the rate at 2*s*. gold was not successful; and the Government thereupon tried, with effect from the weekly sale on the 24th June, 1920, to maintain it at 2*s*. sterling. This attempt also failed, and was abandoned on the 28th September. The Government of India at this period were unable to contract currency in India at the pace at which world prices were falling. All they could do was to avoid further inflation and to effect some measure of contraction. This was insufficient to arrest the falling tide of exchange, which early in 1921 fell below the low level of 1*s*. 3*d*. sterling and 1*s*. gold. The 2*s*. ratio, passed in 1920, remained on the statute-book, and was ineffective for purposes of tender of gold to the currency office. By January, 1923, the tide had definitely turned; exchange recovered to 1*s*. 4*d*. sterling, and showed a general tendency to move upward. It reached the level of 1*s*. 6*d*. sterling in October 1924, at which time it was equivalent to about 1*s*. 4*d*. gold. From that time till March 1926, the upward tendency of

exchange continued, but it was prevented from rising above 1*s*. 6*d*. by free purchases of sterling on the part of Government. Meanwhile sterling was restored to parity with gold about the middle of 1925 and during the 12 months which have since elapsed the rupee has been in the neighbourhood of 1*s*. 6*d*. gold.

9. Such are the salient features in the history of Indian currency to which attention is necessary in order clearly to apprehend the present, and reasonably to plan for the future. Our task is to examine whether any modifications are desirable in the conditions and practice which have come into being as a result of that process of gradual evolution which has been briefly described. For this purpose we must analyse the existing state of affairs both in its economic aspect, which is that of the standard of currency, and in its administrative aspect, which is that of the authority to control the currency. The object of the analysis is to determine the advantages of the existing system and its defects. When its characteristics have thus been distinguished we shall deal with the various remedies that might be applied for the removal of the defects, and we shall explain in full the proposals which we make for that purpose. In a further section of the report we shall deal with the question of the rate at which the rupee should be stabilised.

The Existing System.

10. At the present time Indian currency consists of two kinds of token, paper notes and silver rupees, which are mutually convertible. The paper note is in form a promise by the Government of India to pay to the bearer on demand a specified number of rupees. The rupee is a silver coin 180 grains in weight and eleven-twelfths fine. In addition to these two kinds of token, the sovereign is by statute legal tender for Rs. 10, and the Government is under an obligation to pay Rs.10, when sovereigns are presented for encashment. As, however, the price of gold is considerably above this parity, the sovereign has disappeared from circulation and is not issued by or tendered to Government.

11. The value of both forms of token currency in relation to sterling is at present being maintained between the gold points corresponding to a gold parity of 1*s*. 6*d*. No obligation has been assumed, but the Government as currency authority have freely purchased sterling when the rate has stood at 1*s*. 6$\frac{3}{16}$*d*., and recently, in April, 1926, authorised the Imperial Bank, to make an offer on their behalf to sell sterling at 1*s*. 5$\frac{3}{4}$*d*. The stability of the gold value of the rupee is thus based upon nothing more substantial than a policy of the Government, and at present that policy can be found defined in no notification or undertaking by the Government. It has to be implied from the

acts of the Government in relation to the currency, and those acts are subject to no statutory regulation or control.

Reserves.

12. For the purpose of maintaining the value of the token currency, the Government of India hold two reserves—the Paper Currency Reserve and the Gold Standard Reserve. The former is composed of the proceeds of the note issue and is held as a backing against the notes in circulation; the latter has been accumulated from the profits of the coinage of silver rupees and is designed primarily to maintain the external value of those coins. The permanent constitution of the Paper Currency Reserve provides for a holding of gold and silver metallic reserves of not less than 50 per cent. of the total note circulation, and for the balance to be held in rupee and sterling securities. These permanent provisions have not yet become operative, and in the meanwhile the reserve is governed by transitory provisions under which the fiduciary portion is limited to a maximum of 100 crores of rupees, and the balance of the reserve is held in gold and silver coin and bullion. The actual constitution of this reserve on the 30th April, 1926,† was as follows :—

	Rs. Crores.
Silver coin	77·0
Silver bullion	7·7
Gold coin and bullion	22·3*
Rupee securities	57·1
Sterling securities	21·0*
	185·1

The Gold Standard Reserve at present amounts to £40,000,000. It is invested in British Treasury bills and other sterling securities.

Up till April, 1923, the interest on the investments in the Gold Standard Reserve was allocated to the purpose of strengthening the reserves. But since April, 1923, the interest has been credited to the revenues of the Government. Similarly, though the Paper Currency Act of 1920 provided that the interest derived from the securities in the Paper Currency Reserve should be applied to the strengthening of the reserves, this provision has never been put into operation.

† Throughout the Report, the references to the constitution of the Reserve are based upon the figures of 30th April 1926. There has been some variation since that date.

* Converted at the statutory rate of 2*s*. per rupee.

Functions of Reserves.

13 There is no clear line of demarcation between the purposes for which the two reserves are respectively utilised, and a certain amount of overlapping is unavoidable owing to the interchangeability of rupees and notes. Thus, though the original function of the Paper Currency Reserve was to provide for the convertibility of notes into rupees, this function became of necessity supplemented by that of maintaining the external value of the notes. On the other hand, while the original function of the Gold Standard Reserve was to maintain the external value of the silver rupee, its use operates to some extent in maintenance of the external value of the notes.

14. The maintenance of the convertibility of the note into silver rupees of the present fineness is only possible so long as the price of silver remains at such a figure that the bullion value of the rupee is not higher than its exchange value : that is, at the existing exchange value, the system would be upset if the price of silver were to rise above 48d. per standard ounce.

15. The efficiency of the reserves for the stabilisation of the external value of the rupee depends upon their maintenance at an adequate size, and upon their use in an effective manner. In principle they must be big enough to enable the currency authority to discharge the obligation to sell sterling to any amount required in return for notes and rupees, they must be used for that purpose promptly and without condition, and the sales must be accompanied by an equivalent contraction of domestic currency. In the Indian system these principles have not at all times been clearly recognised, and they are not now, and never have been, adequately supported and enforced by statutory provisions. There is no provision as to any organic relation between the total volume of token currency and the amount of the reserves. So far as the note issue is concerned, the statutes provide for no minimum percentage of gold or sterling securities being held in the reserve as cover against the notes. Nor is there any such fixed relation in regard to the other form of token currency—the silver rupees. The amount of the Gold Standard Reserve and the time and manner of its use are wholly within the discretion of the Government. The Gold Standard Reserve being built out of the profits of coinage, the amount actually carried to the reserve depends on the price at which the silver is purchased and not upon the liabilities outstanding. Any estimate of the amount of the outstanding rupee circulation is largely conjectural; it may be estimated† at 350 to 400 crores, against which the reserve held at present is only 53⅓ crores*. It is true that a portion of the

† As to this estimate, see further para. 123 below.
* Converted at 1*s*. 6*d*. per rupee.

reserve against the silver rupee is carried in the coin itself (in the shape of its bullion value) but, it is admittedly difficult to make any immediate use of the metallic contents of the silver rupees at the time when those rupees are seeking conversion into sterling.

16. The automatic working of the exchange standard is thus not adequately provided for in India, and never has been. The fundamental basis of such a standard is provision for the expansion and contraction of the volume of currency. As the reserve rises or falls with a favourable or an adverse balance of trade, the currency must be automatically expanded or contracted, and the adjustment between internal and world prices maintained. Under the Indian system, contraction is not, and never has been, automatic. On occasions the obligation to buy sterling exchange has been discharged by the Government without any corresponding expansion of domestic currency: the purchases have in the first instance been made against Treasury balances and the currency expansion has been left to be effected subsequently at the discretion of the Government. More serious has been the absence of contraction on occasions when the currency authority has had to sell sterling exchange. The following table (prepared by the Controller of the Currency) shows how far the sales of reverse bills in the past have been accompanied by contraction of currency:—

Years.	*Amount of reverses sold.* £	*Rupees received for reverses sold.* *Rs. Lakhs.*	*Amount of contraction effected.* *Rs. Lakhs.*
1907–8–9 ...	8,058,000 ...	12,16 ...	12,16
1909–10 ...	156,000 ...	24 ...	Nil.
1914–15 ...	8,707,000 ...	13,16 ...	1,05
1915–16 ...	4,893,000 ...	7,38 ...	34
1918–19 ...	5,315,000 ...	7,08 ...	Nil.
1919–20–21 ...	55,532,000 ...	47,14 ...	34,68

17. The action of Government in avoiding the full compensatory contraction on these occasions was no doubt due to some extent to fear that the monetary stringency which would have resulted from a full contraction would have dislocated business. There were, moreover, factors at work in 1920,—such as revenue deficits and a large amount of maturing debt—which made it then difficult to enforce greater contraction. However that may be, it is clear that on such occasions the exchange standard was not being applied, and possibly could not have been applied, in a normal manner. There was nothing in the Indian system to enforce such an application. In 1920 the consequences were disastrous. There must ever be danger of such disaster under a system which does not automatically enforce contraction of internal currency concurrently with the depletion of Reserves.

Elasticity.

18. In a well-regulated system of currency, the volume of currency should vary freely in response to the varying requirements of trade. In India there is a seasonal variation due to the requirements for financing the movement of crops. In order to provide for them, the currency authority is allowed by statute to issue currency notes up to a maximum limit (at present amounting to Rs. 12 crores) against hundis or internal bills of exchange. This provision has had beneficial effects in practice, but it is not in our opinion incapable of development and improvement in connection with a reorganisation of the bases of Indian currency. Any such provision depends for its proper operation on a plentiful supply of genuine trade bills. But in India, for a variety of reasons, most of the internal trade is financed by a system of cash credits or by the advance of money against demand promissory notes. It has, therefore been found difficult to secure an adequate volume of bills as cover against the seasonal increase. As a result, the currency authority has on occasions been forced to provide for the needed elasticity by regulating its holding of sterling securities in the Reserve.

19. A well-regulated system should also provide for a measure of elasticity in the expansion of currency in case of great financial crisis, when the need for additional cash for the support of credit is urgent. In such case it is necessary to provide for an emergency issue of currency on special terms. The Indian system makes no express provision of the sort.

Control of Currency and Credit.

20. A description of the present state of affairs and an account of its defects would be incomplete without a reference to the subject of co-ordination of control of currency and credit. India is perhaps the only country, among the great trading countries of the world, in which the Government exercises direct control over currency in general and over the note issue in particular. The banking and currency reserves of the country are thus separated, which diminishes their capacity to effect their specific purpose of stabilisation in the most economical and efficient manner. In other countries this is effected by concentrating these reserves at a Central Bank. Moreover, Government control of currency results in a dual control of monetary policy. The Government controls the currency. The credit situation is controlled, as far as it is controlled at all, by the Imperial Bank. With divided control, there is likelihood of divided counsels and failure to co-ordinate. In fact, difficulties have arisen owing to the existence of two distinct authorities controlling currency and credit. The only certain way to secure co-ordination is to concentrate the controls in one hand. In other countries the single controlling hand is that of a Central Bank.

A Summary.

21. To summarise the present state of affairs and its defects :—

(1) The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens in circulation, with the unnecessary excrescence of a third full-value coin which does not circulate at all. One form of token currency (into which there is an unlimited obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

(2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

(3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.

(4) The system is inelastic. The utility of the provision for elasticity made on the recommendation of the Babington-Smith Committee is affected by the methods of financing Indian trade.

Essential Requirements.

22. In consequence of these defects the system has not the confidence of the public. Some of the lack of confidence is the result of an exaggerated idea as to the extent to which any system of currency can be made to work automatically and independently of expert control. But when allowance has been made for all misunderstandings and misapprehensions, the fact remains that a large measure of distrust in the present system is justified by its imperfections. We recognise the skill with which successive generations of officers of Government have developed a system of currency in India, and the fidelity with which they have administered it. From 1898 to 1914 the exchange standard worked on the whole well in practice, except for certain failures of co-ordination due to the division of function between the Government of India and the India Office. But the evolution of the Indian economic system has now reached a stage when her currency can and should be placed upon a more simple, certain, and stable basis. A substantial measure of stability has been attained in the past. But certainty and simplicity have been lacking; and for a system of currency under Indian conditions and for the Indian people these two last qualities are as vitally necessary as the first. Without certainty and simplicity in the system, there will never in India be confidence in the stability of the currency, and without confidence in the stability of the currency, the uninstructed public will never be weaned from those uneconomic habits of hoarding and that disinclination to investment which are now the worst obstacles to the progress of the nation.

Alternative Proposals for Reform.

23. After exhaustive inquiry we have found that the possible methods by which the defects in the present system might be remedied may be reduced to three. These are :—

(i) the perfection of the sterling exchange standard,
(ii) the adoption of a gold exchange standard, and
(iii) the adoption of a gold standard proper, with or without a gold currency.

Sterling Exchange Standard.

24. We shall first consider the possibility of a perfected sterling exchange standard. The main defects in the existing system might be remedied by the following provisions :—

(*a*) the Gold Standard Reserve and the Paper Currency Reserve might be amalgamated and reconstituted by statute as a single currency reserve under the control of one currency authority;

(*b*) the currency authority might be required by statute to sell rupees for sterling without limit at the upper gold point of a fixed parity and similarly to sell sterling for rupees at the lower gold point of the same fixed parity.

25. By an appropriate structure built on this foundation, the Indian system might be developed into a perfected sterling exchange standard, both automatic and elastic in its contraction and expansion, and efficient to secure stability. Such a system would involve the least possible holding of metallic reserves, and would also be the most economical from the standpoint of the Indian taxpayer. But the system would have grave defects. The silver currency would still be subject to the threat implied in a rise in the price of silver. Were sterling once more to be divorced from gold, the rupee, being linked to sterling, would suffer a similar divorce. Should sterling become heavily depreciated, Indian prices would have to follow sterling prices to whatever heights the latter might soar or, in the alternative, India would have to absorb some portion of such rise by raising her exchange. India has had experience of both these alternatives and the evils resulting from them are fresh in her memory. We do not indeed regard the possibility of sterling again becoming divorced from gold as of much practical likelihood : it is unlikely to happen except in a world-wide catastrophe that would upset almost all currency systems. Nevertheless there is here a danger to be guarded against, which is real, however remote. There is undoubted disadvantage for India in dependence on the currency of a single country, however stable and firmly linked to gold. For these reasons, were the standard of India to be an exchange standard, it should undoubtedly be a gold exchange standard, and not a sterling exchange standard.

The Gold Exchange Standard.

26. A gold exchange standard could be secured by providing that the currency authority, instead of undertaking to buy and sell sterling, should undertake an obligation to buy and sell, at the upper and lower gold points respectively and to unlimited amounts, the currencies of any of the principal foreign countries with a gold standard.

27. In this case the rupee is not, in theory, directly stabilised in relation to gold. When the obligation is undertaken to buy and sell the currencies of the leading gold standard countries, the value of the rupee may even then vary in relation to gold if the currencies of *all* those countries cease to maintain that relation. In practice, the improbability of such an event is extreme, and on this basis the stability of the rupee in relation to gold would be practically secured.

28. The imposition of a statutory obligation linking the rupee to the currency of more than one gold standard country, together with the other improvements suggested in the preceding paragraphs relating to the sterling exchange standard, would give to India a currency system which would have decided advantages in comparison with the present system. The internal currency would be convertible into international currency at the will of the holders and the rupee would thereby be stabilized; the reserves would be simplified; the parity with gold would be established by statute; and the system would be as automatic as, and no more subject to manipulation than, the systems of the United States of America or Great Britain.

Objections to a Gold Exchange Standard.

29. There would still however be serious defects in the system. The danger would still impend that the silver rupee would vanish as soon as the price of silver rose above the melting point of the coin. Were that to happen, it would be necessary to stop the coinage of the silver rupee of the present fineness and weight and to replace it by small notes and coins of nickel or of less silver content. Under any exchange standard the note is internally convertible into silver rupees only and not into gold, and as long as that is the case, both of the courses referred to are open to such strong objections as to be practically impossible. The status of the rupee must not be adversely affected unless there is something better to take its place.

30. This defect, serious as it is from a technical aspect, is not the only or indeed the chief defect which leads us to the conclusion that a gold exchange standard is not the best for India under present conditions. The chief defect is

that although it secures stability, it has not the simplicity which is essential to secure the confidence of public opinion for any currency system under present conditions in India. The mechanism of an exchange standard is refined. Some knowledge of economics is necessary to understand it. The right of convertibility upon which its stability is based is one of no direct concern to the general public, and it is unintelligible to the majority. The uninstructed see nothing tangible behind the token currency to assure its value. These characteristics, inherent in an exchange standard, make it unsuitable to the needs of a vast community or collection of communities, the various members of which are of all degrees of education, and indeed of all stages of civilisation. It is impossible also to ignore that for historical reasons, into which it is unnecessary to enter, there is a large body of public opinion in India that is suspicious of the mechanism of an exchange standard. It is convinced that this mechanism can be manipulated and it fears that it may be manipulated in a manner inconsistent with Indian interests. We believe ourselves that this fear is groundless, and further, as we have stated already, that a pure exchange standard is no more and no less liable to manipulation than a gold standard; but that is not the opinion of the Indian public, and it is essential that whatever system of currency is adopted should be one that is capable of securing the confidence of Indian public opinion, after experience of its working.

31. The basic right of convertibility that supports an exchange standard is too abstract for the present conditions in India: the backing which it supplies for the token currency is too intangible and invisible. Without some backing more certain, simple, and solid, confidence in the stability of the currency will grow more slowly than it should, if it grows at all, and progress in the habits of banking and investment will be delayed. A backing more certain, simple, and solid must be provided, nor can there be any doubt as to the best means of providing it. In the present state of its development Indian public opinion will have confidence in one thing only as solid enough for a backing for its currency, and that is gold. It requires some link that is real, and not only real but conspicuously visible, between the currency of the country and gold.

32. We are thus led to the conclusion that since a gold exchange standard cannot provide an efficient remedy for the defects of the existing system of Indian currency, to remedy those defects and to fortify popular confidence in the currency it is necessary to establish on a sure basis not only the external, but also the internal, convertibility of the token currency of the country into metallic gold.

A Proposed Scheme for a Gold Currency.

33. We will now consider the principal scheme for a gold standard and gold currency for India that was placed before us in evidence. We refer to the scheme set out in the memoranda and evidence of the officials of the Finance Department of the Government of India.* Under this scheme the silver rupee would cease to be legal tender, except for small amounts, after a period during which it would have been convertible into gold currency. The scheme would involve the attraction to India of a large additional amount of gold, required for currency and the conversion of hoards. It would also involve the sale of an amount of redundant silver equal to about thrice the world's production for a year. A summary of the scheme is contained in an annexe† to this Report.

34. The chief objects of the scheme are :

(*a*) To eliminate the threat to the currency inherent in the possibility of a rise in the price of silver by dethroning the rupee from its position as a standard coin of unlimited legal tender, and thus also to enable the constitution of the reserves to be simplified by eliminating the silver therefrom : and

(*b*) To cure the uneconomic habit of the people of holding the precious metals as a store of value, by assuring them, through the instrumentality of a gold currency, that the same measure which they mete out, in gold value, by way of investment or deposit with a bank, will be meted to them again, in gold value.

Criticism of the Scheme.

35. The points for consideration in connection with this scheme are :

(i) the effect of the absorption by India of about £103 million of gold (in addition to normal absorption for the arts, hoards, etc.) on the supplies of credit, the rates of interest, and gold prices, throughout the world :

(ii) the reliability of the estimates as to the amount of gold to be required and the time at which it would be required and the effect of any miscalculation under these heads on the Indian monetary situation :

(iii) the effect of the scheme on the silver market of the world and the amount which would be realised for the surplus silver :

(iv) the effect of the proposals as to silver on the favourite store of value of the masses of the Indian population :

* Appendices, Nos. 5 to 7. † *See* page 90.

(v) the effect on India of the probable reaction of these proposals on other silver-using countries, and especially on China; and

(vi) the possibility of British and American co-operation in the matter of raising credits for the carrying through of the plan.

(i) *Effect of India's additional demand for gold.*

36. As regards the future of the gold market divergent opinions have been expressed, and we have not found it possible to arrive at any definite conclusion as to the future relation between supply and demand. But the evidence which we have received, and in particular that from Professor Gustav Cassel and Mr. Joseph Kitchin, has convinced us that it would be most imprudent not to take into account the possibility, indeed the probability, that unless great economy is exercised in the use of gold, both in regard to its use as a commodity and its use as money, we have to look forward to a prolonged period of steadily falling commodity prices throughout the world.

37. In this connection it is necessary to take account of the requirements of various European and other countries whose financial equilibrium has been disturbed to a greater or less extent in consequence of the War. These countries are now trying to climb back gradually to the gold standard or the gold exchange standard. This aim requires for its fulfilment that there should be a certain amount of free gold available each year. Though signs are not wanting of a spirit of co-operation among the Central Banks towards effecting considerable economies in the international use of gold, there can be no doubt that a large extra demand from India would cause increased competition for gold among the countries of the world and lead to a substantial fall in gold prices and a substantial curtailment of credit. In their reaction on India as one unit in the world's trade system, a fall in gold prices and a curtailment of credit would on balance be unfavourable.

38. It has been suggested that the United States of America at present holds a far larger stock of gold than is required for monetary purposes, and that it would be an advantage to America and to the world generally if some of this redundant gold were to be absorbed by India. The authoritative evidence which we have received from the United States does not confirm this suggestion. We have been told that during last year the United States of America parted with about $134 million of gold, and that the residuum of free gold available is not in excess of the probable requirements of other countries for purposes of reconstruction. Bearing in mind these requirements, and also the internal absorption of gold for the growing needs of the United States itself, we consider that the stock of

"free" gold in America cannot be regarded as superfluous and will probably be absorbed in a comparatively short time.

(ii) *Uncertainty of the estimates of the amount and time of gold demand.*

39. There is an element of uncertainty involved in the estimate of the amount of gold required for giving effect to the scheme, and it is impossible to be sure that the additional demand for gold could be spread over the period of 10 years.

40. Sufficient weight has not been given to the possibility of the replacement, as the result of the scheme, of a part of the note circulation by gold. If a high valued gold coin is introduced, the alternative of carrying a few gold coins would present some attractions and might make people prefer gold coin. In view of India's attitude towards gold, many who have been in the habit of using notes because paper is more convenient than silver rupees might turn to gold, which would be as convenient as rupees and more attractive than notes.

41. Gold coin is fully valued and the metal has a prestige of its own. We anticipate that the decline in the value of silver which would result from the proposals of the scheme relating to that metal would lead to a loss of confidence by the Indian people in the value of silver as a store of savings, and would, to that degree, induce an enlarged absorption of gold for non-monetary purposes, thus augmenting the gold requirements of the scheme.

42. It has been urged that if a gold currency is introduced into circulation, and if exchange is stabilized, the result would be so to increase confidence that gold would come out into circulation or come back into banking reserves from its present location in hoards. This effect might no doubt be produced by a development of banking and investment habits; but there is no very obvious reason why it should be produced by putting gold into circulation. The mere act of putting gold into circulation would not in our opinion develop the banking and investment habit.

43. The scheme involves the reduction of the proportion of gold and sterling securities in the Reserve to gross note circulation, during the transitional period, to 30 per cent. That proportion is in our opinion too low for safety, especially during a period of transition, and the external convertibility of the local currency would be seriously jeopardised if the transition to the new system should coincide with an unusually bad year for Indian exports. An increase in the proportion to a safe level during this period would mean an addition to the estimated gold requirements.

44. It would be imprudent to place much reliance on the anticipation that the initial demand for gold can be limited to Rs.50 crores. As soon as it became known, and it must become

known at once, that the status of the rupee was threatened, holders would probably hasten to get rid of every rupee they could spare, and it is quite possible that the conversion of the whole amount of surplus rupees might thus have to be effected within a short time after the initiation of the scheme.

45. If the gold requirements should prove to be greater than is contemplated in the scheme, or if the absorption could not be spread over a period of 10 years but progressed more rapidly, the effect would be to intensify the difficulties and to increase the expense of the project. Had the control of the currency meanwhile been transferred to a bank, such an intensification might involve a restriction of credit conditions in a manner and to a degree highly detrimental to the country's economic progress.

(iii) *Effect on the silver market, and possibility of realising the assumed price.*

46. The proposals as to silver involve even more risk than those as to gold and even greater disadvantages. To the extent of about two-thirds of the output, silver is not won for its own sake alone but either as a by-product of base metals or in conjunction with gold. If a substantial fall in the price of silver were to take place, any consequent curtailment of output would hardly affect the base metal product at all, would have more (but still little) influence on the production from gold ores, and would have its chief effect on silver ores only, i.e., on about one-third of the silver production. Even here the effect would be slower and smaller than might at first sight be expected, because the fall in price would not affect the richer mines, and the poorer mines would struggle to continue their production as long as possible. On the other hand, the increasing use of notes, not only in Europe but in the Far East, and the increasing resort to nickel and other base metals for subsidiary coinage, are factors which point to a distinct diminution in the demand for silver in future. The future of the silver market must at all times be a matter shrouded in obscurity: but, assuming no change in the status of the silver rupee, the best working hypothesis at present is that the production of silver in the next 10 years will be sufficient to meet the demand. But if, as contemplated in the scheme, silver were to be dethroned from its present position in India, and if for several years India were to meet her own normal demand for silver by melting rupees, we should not be surprised to see silver fall much below the level of 24*d.* assumed in the scheme, especially if, as is not improbable, the action of India had the effect of making other silver using countries follow suit.

47. The Government's policy in regard to gold would also react on the silver position. If the policy of introducing a gold currency were adopted, it would, by largely augmenting the

already extensive demand for a metal that threatens to be in increasingly short supply, result in further depression of the gold price of silver.

(iv) *Effect on silver hoards.*

48. The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals would inflict heavy losses on the poorer classes, who have put their savings into silver ornaments and who would find their stores of value depreciated by perhaps 50 per cent. by the action of Government. It might well happen that, when it was seen that the price of silver was doomed to fall, there would be a tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value. It is proposed, in the scheme, to protect the value of the Indian holdings of silver against this inevitable depreciation by an import duty. Quite possibly, if it were a very heavy duty, it might protect them to some extent. If it did, it would put the Government of India under a moral obligation to maintain the price of silver for practically all time; for at the completion of the plan they would have sold nearly 700 million ounces of silver to the people at a price that was possibly double the world price. In our opinion, however, the effort to maintain the domestic price of silver irrespective of world price would probably fail. There has always been a considerable trade in silver over the land frontiers of India; and, apart from the difficulties of attempting to exclude a valuable metal from a wide frontier, if people who are accustomed to do that trade were to find that the value of silver in the outside world was very much below the value in India, it would probably affect confidence in the value of silver in India itself. In the case of an article which, like silver, is largely kept as a store of value, the influence of opinion on its value is extremely important.

(v) *Effects on China.*

49. We have thought it desirable to treat separately the effects of these proposals on China. For a very long time the Chinese have been profoundly concerned at the uncertainty of silver as a basis of credit and as a measure of value in China. China is now the only great silver standard country. The countries with which the bulk of her trade is carried on are all either on the gold standard or on the gold exchange standard. The Chinese have for a long time been trying to find some means of substituting gold or some form of gold standard as the basis of their currency. This would probably have been done already but for the expense. The catastrophic fall in the price of silver in terms of gold, which would take place on the bare announcement that surplus silver equal to the world production

for three years was for sale, would undoubtedly tend greatly to accelerate the movement in China, and might induce her immediately to set about securing the gold needed as a basis for instituting some form of gold exchange standard. That would in turn magnify the effect which had already been produced on silver by the Indian announcement, both by the reduction in demand and to some extent by the increased supply of silver that might come into the market. Moreover, the adoption of a gold standard by China would produce a further new demand on the world's gold supplies, and this demand would tend to appreciate gold and thus still further to depress the price of silver.

50. The reaction on Chinese trade would be by no means negligible. China is the greatest, and perhaps the only great, undeveloped market left for the expansion of international trade. The effect of the announcement that the Indian Government proposed selling a large quantity of silver would be immediately to throw out of gear the exchange with China and for a time to paralyse the growing trade of the world with that country. India, apart from her direct trade with China, which is a growing market for cotton and cotton goods, could not escape injury from a wide-spread dislocation of the kind.

(vi) *Raising of the required credits.*

51. As regards the question of credits, we have had the benefit of the opinion and advice of the authorities best qualified to speak on the subject, namely the Governor of the Bank of England and the Governor of the Federal Reserve Bank of New York. This is a matter in which Great Britain would not be able to act alone without the co-operation of America. Both authorities view the proposal with alarm on the grounds that it would retard the progress of monetary reconstruction in Europe, would upset world prices, and would be fundamentally harmful both to India and to the rest of the world. The United States is directly interested in the proposal through its mining industry, both in silver and in base metals. The currency authorities and bankers of the United States, with its great and traditional interest in silver, cannot be expected to support or encourage a proposal which would deal such a blow to the silver market as the addition to supplies of thrice the whole of the world's production for a year. In these circumstances it appears that insuperable difficulties would be encountered in obtaining the necessary credits.

It must be pointed out that, before adopting this proposal, or any other proposal for the introduction of a gold currency into India, the authorities responsible for the scheme must be certain beyond the possibility of doubt that they can carry the scheme successfully through. For that purpose, they must be absolutely assured that they can obtain the amount of gold required. The evidence which we have received prevents any such assurance. In view of that evidence, we

are confident that those responsible for the scheme under consideration would be the first to recognise that the external conditions which are essential for the success of the scheme at the present time are not fulfilled.

Cost of the scheme.

52. Before concluding this section we must refer to the estimates of the cost of the scheme. Mr. Denning puts the cost at 1·65 crores per annum during the first five years and 1·12 crores thereafter. Sir Basil Blackett, by providing for a smaller holding of gold, would reduce the estimate to about two-thirds of a crore after the transitional period. These estimates are based on a proportion of 30 per cent. gold and gold securities in the Reserve during the transition period, a figure which we have already criticized as unsafe. Moreover, these estimates take credit for the income to be derived from the conversion of redundant rupees into interest bearing securities. This income would become available ultimately whether the scheme were adopted or not. Mr. Kisch, after eliminating this credit, considers that, even on the basis of a 30 per cent. proportion, the permanent loss to India as the result of the adoption of the scheme, to which he is strongly opposed, can scarcely fall short of 3 crores a year, besides an indefinite and incalculable amount depending on the extent to which the promotion of a gold circulation checks the future natural growth of the note issue. We have not attempted to recast any of these estimates on an arithmetical basis because we feel that from the nature of the case they must be largely conjectural and would be liable to be greatly exceeded owing to various causes which have been referred to above. All that is certain is that there is expense involved, and that it must be substantial.

Unacceptability of the Scheme.

53. For all these reasons, the scheme fails to commend itself to us. In our opinion both the objects which the scheme has in view can be attained without any of the risks and disadvantages attendant on the scheme itself. Indeed, all that is claimed for it, in comparison with other proposals, is that it would attain the object of educating the Indian people in the habits of banking and investment, and out of the habit of hoarding, more speedily than any other scheme. As already indicated in paragraph 42, we do not think it would do so. The habit of hoarding the precious metals became ingrained in India through centuries of war and rapine, and has persisted under British rule in spite of security of property and the introduction of improved currency and banking facilities. There are welcome signs that the deep-seated habit is beginning to yield to these influences, but we see no reason to believe that the introduction of a gold currency would accelerate the process. Even if it would do so, it seems to us that the acceleration would

be gained at the cost of risks far too great to be justified. We may conjecture that the authors of the scheme would come to the same conclusion, after studying the evidence that we have received from the United States. Sir Basil Blackett comes to meet such a decision when, in the last paragraph of his memorandum, he says: "If the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States or in Europe, India has clearly nothing to gain by the attempt." In our opinion, the attempt would be very likely to have the consequence to which he refers. It can only be accomplished at the cost of insecurity to those countries which have restored their monetary standards, and at the risk of delay to those countries which are now seeking with reasonable promise to do so, and this uncertainty and delay are likely to produce higher interest rates, business disturbance, and economic depression, with inevitable repercussions on the economic well-being and commercial prosperity of India.

We are unable therefore to recommend this scheme for adoption; and the reasons, stated above, which have led us to this conclusion, would lead us to reject any proposals which involved, by the limitation of the right of legal tender attached to the rupee, or by the sale of any large quantity of silver, any severe shock to the silver market, or which required the abrupt attraction to India by artificial expedients of any large additional amount of gold for circulation as currency.

II.—A GOLD STANDARD FOR INDIA.

54. We have already arrived at the conclusion that, in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or, in other words, that it is necessary to establish a true gold standard. It should be understood that this does not necessarily imply a gold currency. It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuousy visible, without putting gold into circulation. Having stated our reasons for rejecting the principal proposal for a gold standard with a gold currency that has been suggested to us, we proceed to deal with the method for the establishment of the gold standard which we recommend for adoption. The essence of the proposal which we proceed to develop is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever.

Gold in Circulation.

55. The economic reasons against putting gold into circulation are simple and clear. If the gold in the reserve is transferred to

the circulation, the structure of credit that can be built on that reserve is *pro tanto* reduced. The greater the proportion of gold in circulation, the less the elasticity of the currency system. In a system that consists solely of gold coins, there can be no elasticity as the currency can only be increased by taking payment in gold for the balance of exports over imports and it can be decreased by the contrary process only. In short, the less the gold in circulation, the more will be the gold in the reserves and the greater the elasticity of the structure of credit that can be built thereon. Gold in circulation is of uncertain value for the support of exchange. In the words of the Chamberlain Commission's report, " so long as the public have the option of making payments in tokens or in gold, it is the surplus tokens and not the gold in circulation which will seek an outlet at a time of weak exchange."

56. The chief reason that has been advanced for the introduction of a gold currency is that it will give the people confidence in the stability of their currency. We incline to the opinion that the scheme which we outline below will do so much to establish confidence in the stability of the currency that whatever more would be gained in that direction by proceeding to put gold into circulation would not be worth the expense, the loss of elasticity, and the other serious disturbances which are likely to follow. It is agreed by many who advocate the introduction of a gold currency that a token currency of notes inconvertible for internal purposes is the ideal end towards which India should work. The scheme outlined below carries India very far along the road towards that end, and to add to it at some future time a gold currency would seem to us a useless return along a part of the road already traversed by the introduction of this system. It should, moreover, be observed that this scheme has the advantage of setting up almost immediately a full gold standard whereas all other schemes put forward contemplate a postponement of this desirable condition for a decade or more.

57. Nevertheless, it should be recognised that the scheme which we recommend is equally appropriate, whether or not it be held that the gold standard should ultimately be supplemented by a gold currency, at some future time. Supposing that it be held that a gold currency should ultimately be introduced, there is, nevertheless, general agreement that it cannot be introduced at once. (The scheme referred to in paragraph 33 above is that which provides for its most rapid introduction. We have given reasons for believing that the rapidity of that scheme involves risks which ought not to be incurred.) The alternative is to make provision for the gradual strengthening of gold reserves in such a manner as to avoid disturbance to the world's gold and silver markets (with its inevitable injury to the finances of India and her prosperity in trade), whilst incurring the minimum of expense. The scheme outlined below does contemplate

incidentally a gradual but substantial strengthening of gold reserves, at the maximum rate, and to the maximum extent, possible under present conditions without upsetting prices, incurring excessive expenses, or injuring Indian trade by unduly restricting credit.

It appears to us, in short, that if one desired that a gold currency should be introduced, it is thus that one would have to proceed. Our own view is that it would be unwise to contemplate the introduction of a gold currency under any conditions which we can foresee. But while holding that view, we have tried to see the matter from the point of view of those who do want a gold currency as soon as it can be had. It then appears to us that the following proposals open the door for the introduction of a gold currency at some future time, as wide as it is now possible to open it. They initiate a system which will leave the people of India perfectly free to decide, through their legislature, when that future time has come and a gold currency can be introduced without risk, whether or not they are prepared to confront its expense, and to disregard its other disadvantages. It is quite possible that when that time comes the people of India will no longer wish for a gold currency. The widespread desire for it which was expressed to us by so many witnesses in India appeared to be induced to some extent by the idea that gold was the most advanced form of currency and that other nations had long denied to India a privilege which they enjoyed and highly valued themselves. The war has taught Europe to do without gold coins and experience has aroused doubts of their utility. In returning to a gold standard the nations do not aim at a return to a gold currency. Great Britain has hitherto avoided the reintroduction of gold into circulation. In the United States, gold, which circulates in theory, does not circulate in practice. Some high authorities have expressed the view that the circulation of gold is beginning to be regarded as a sign of a backward civilisation. It may well be that, when India is in a position to introduce gold into circulation, she will reject it as an obsolete ideal, and will finally close the door which we now propose to leave ajar. But that is a matter which we have neither the desire nor the capacity to forejudge.

58. We fully recognise that the system which we recommend will impose upon the Indian currency authority an obligation far more serious than has ever been imposed upon it in the past. The obligation is to convert the currency, not merely into foreign exchange, but into metallic gold, and it is an obligation that is not, as formerly, conditional and circumscribed, but absolute and unlimited. Nevertheless this obligation does not differ in essentials from that which must be undertaken for the maintenance even of a sound exchange standard. It has been undertaken by every other country that has adopted an effective gold standard : and we have satisfied ourselves that the present

resources in the form of reserves at the disposal of the Government of India are adequate to enable the currency authority safely to undertake the obligation, with the measures of fortification, and at the time, which we specify in our detailed recommendations.

The Gold Bullion Standard.

59. The currency system which we recommend for the present needs of India may be described as a gold bullion standard. We propose that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. The fulfilment by the currency authority of this obligation will secure the stability of the gold value of the rupee, and the stability of exchange within the gold points corresponding to the selected parity. Gold is thus made the standard of value. The rupee is linked to gold and not to sterling or to any other currency or group of currencies.

60. Since gold bars are to be given in exchange for notes or silver rupees, not for export only, but for any purpose, this is not an exchange standard; it is an absolute gold standard. Nevertheless the compensatory mechanism of the exchanges is preserved, because gold bars are not currency. When gold bars are given by the currency authority for notes or rupees, the currency is contracted, while, on the other hand, when gold bars are given to the currency authority for notes or rupees, the currency is expanded.

61. For the purposes of India this standard fulfils the essential condition, that it should be not stable only, but simple and certain. It provides the token currency with a right of convertibility that is intelligible to the uninstructed, and with a backing that is tangible and visible. In short, it has the characteristics necessary to inspire confidence in the Indian people, to promote the habits of banking and investment, and to discourage the habit of hoarding precious metals. The statutory obligation to buy and sell gold for rupees without limit at a prescribed parity for the first time in the history of the rupee will base it on gold firmly and in a manner that is conspicuously visible. It establishes the principle that gold is the standard of Indian currency at a fixed ratio, and that the currency authority admits it, and must maintain it.

62. There is no reason to suppose that the obligation to sell gold bars will result in any sudden or substantial drain on the reserves for the conversion of rupee hoards. Holders of such hoards can convert them into gold at present by buying that metal in the open market; and there is good reason to believe that large quantities of hoarded rupees have already been converted in

this way. Since it is not proposed that the rupee should cease to be a legal tender, there will be no greater incentive to convert under the new system than there is now; and as will be observed from the detailed proposals below, it is not intended that gold should be given by the currency authority at a rate cheaper than the market rate.

63. Apart from the economic loss to India, the existence of a large volume of currency in hoards is a formidable obstacle to the efficient working of any currency system. As long as the circulating media of the country, whether silver coin or gold coin or notes, are employed for hoarding, the control of the currency authority over expansion and contraction of currency must be uncertain and there must be a possibility of fluctuation of prices wider than would be the case if all currency served merely the purpose of a medium of exchange. The ebb and flow of currency in hoards with its resultant effects on the volume of active monetary circulation and consequently on prices introduces an element of uncertainty which makes the working of the discount policy by the currency authority very difficult and may stultify its efforts to control the money market. The mere substitution in the hoards of one kind of coin for another, both of which are legal tender, is no remedy at all for this evil. Under the system which we propose, that portion of the hoards which is held in the form of gold coin will be rendered largely innocuous by the step, which we recommend below, of withdrawing the legal tender quality of the sovereign and half-sovereign; while that which is in the form of silver will presumably in course of time, be robbed of its latent power to disturb internal prices and money rates by being replaced—if the process of conversion should continue—by gold bars; or preferably by other more economic forms of saving, such as the gold savings certificates referred to below. Hoards in the form of bars cannot be utilised for monetary purposes until they have been converted into legal tender money, and such addition to the currency can only be made by the currency authority which will, in exceptional circumstances, if the stability of the currency be thereby threatened, be prepared to deal with it through credit control.

Buying and Selling Rates for Gold.

64. A sound gold standard postulates a statutory obligation upon the currency authority to buy and sell gold at a price equivalent to the par value of the monetary unit. This obligation constitutes the cardinal condition and compelling force for the maintenance of monetary stability in relation to gold, and, through gold, in relation to all monetary systems similarly linked to gold or gold exchanges. In the case of India there is a difficulty in the way of imposing on the currency authority an obligation in this simple form. India's demand for gold is not confined to monetary purposes. She has always absorbed gold

and will probably continue to do so in important amounts for purely social uses. This factor has to be taken into account when determining the obligation of the currency authority to buy and sell gold. At present India's requirements for these purposes are satisfied by an admirably organised bullion market, which buys gold abroad, mainly through the banks, wherever it happens to be cheapest. The gold so bought is sold in India at prices which cover the cost of importing it, and no doubt leave a profit to the dealers. If the currency authority were compelled to sell gold at a price exactly corresponding to the par value of the rupee, it would at once become the cheapest market for gold in India in all ordinary circumstances, for a selling price so determined would take no account of the costs of importation nor of any deviation in the value of the currency from its gold parity. Apart from practically destroying the wholesale bullion market, the currency authority would inevitably become involved in the performance of a task which does not properly belong to it. Its primary duty of maintaining the value of the monetary unit at parity with gold would be made far more difficult, and the means, e.g., the rigorous and continuous contraction of credit, which it would have to employ to attract a steady flow of gold into its reserves, so as to enable it to meet the demand for both monetary and non-monetary gold, would be highly detrimental to the economic progress of the country. It is essential, therefore, that the conditions which are to govern the sale of gold by the currency authority should be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. In order to achieve this object we propose to fix the selling prices of gold at rates which will enable the Bank to replenish its stock of gold without loss by importation from London. Thus, when exchange is at the upper gold point the selling price for delivery at Bombay will be the par value, i.e., Rs. 21 as. 3 ps. 10 per tola. When exchange is below this point, the Bank will be required to sell gold for delivery in London or Bombay, at the option of the purchaser, at certain notified prices. These prices will be determined by the cost at which gold could be respectively purchased in London or laid down in Bombay from London when exchange is at the lower gold point. The option to the purchaser on the other hand to buy gold for delivery in London at the prices determined leaves the margin between the upper and lower gold points of the exchange as narrow as it could be, having regard to the cost of moving gold to and from its most convenient gold centre. The form in which these obligations would be imposed on the Bank is set out in paragraph 150 below, and the method of computation employed is explained in Schedule 1.

Removal of the Legal Tender Quality of the Sovereign.

65. The obligation to sell gold bars for all purposes makes it impossible to have any gold coin as legal tender, or to mint gold

for the public, unless and until the holding of gold in the reserves is big enough to make it possible to accept the obligations implied in the introduction of a gold currency, and it is decided that the introduction of such a currency is desirable. Otherwise the gold from the reserves might in certain circumstances pass into circulation without effecting any contraction in the currency and thus without fulfilling the essential purpose of securing the compensatory effect of the exchanges.

66. We therefore recommend that the legal tender quality of the sovereign and the half-sovereign should be removed. We do not apprehend any practical inconvenience from this proposal. Although these coins are legal tender under the Coinage Act, they have, owing to the existence of the 2*s*. rate in the statute book, long ceased to function as currency. In this connection it cannot be too clearly emphasised that as the sovereign and half-sovereign are fully valued coins, the cessation of their legal tender character does not involve any diminution in the real value of the coin in the country held as a store of value. In any notification which may be issued, of the buying price for gold, it should be explained that the price announced means so many rupees per full-weight sovereign.

If the currency be firmly stabilised in relation to gold, and be made directly convertible into gold, in accordance with our recommendations, we expect, as said, no undesirable consequences from the demonetisation of the sovereign, nor do we think that there should be any hesitation to sacrifice the shadow of an unnecessary, and in practice little used, gold coin of legal tender, in order to obtain the substance of a real gold standard. For the present, for the reasons stated in earlier passages of this report, a real gold standard with a gold currency is unattainable. The choice is between a real gold standard without a gold currency, and an exchange standard with an excrescent and unnecessary gold currency, which would only serve to disguise from the people of India the true basis of the stability of their currency. As between these two, every advantage in our opinion lies upon the side of the real gold standard that we recommend.

Introduction of Savings Certificates Payable in Gold.

67. The obligation specified in the preceding paragraphs to buy gold bars and to sell them in quantities of not less than 400 ounces, can in the beginning have only an indirect effect upon the people at large in establishing confidence in the currency. It is the bankers and bullion brokers who will make direct use of the provision. It is desirable, therefore, to find some further and more direct and visible means for bringing it home to the masses that gold is the standard of value of the rupee and that the one is convertible into the other. Such a means might, and we recommend that it should, be found in the offer by the Government "on tap" of savings certificates, redeemable in

three or five years, in legal tender money or gold at the option of the holder. They might be issued in denominations of one tola and integral number of tolas, and sold for legal tender money, rupees and notes, at a price which would give the holder an attractive yield in interest. It would add to the attractiveness of the certificates if the holder were given facilities to obtain payment therefor at any time during their currency at a discount reckoned at varying rates according to the date of encashment, but until the date of maturity it would be paid in legal tender currency and not in gold. Thus gold for delivery in three or five years would be sold at a substantial discount in relation to the cash price. As regards the relation between these certificates and the amount of the Reserve, the gold standard, of which this proposal is a useful auxiliary, and which it confirms, does no doubt necessitate a strengthening of the gold holding in the currency reserve, as proposed in paragraph 78 below.

68. The fear has been expressed that these certificates would have the undesirable effect of stimulating in India a fresh demand for gold. For the following reasons we are not of opinion that they would have any such effect. The offer of such certificates should constitute a powerful incentive to investment and a powerful antidote to hoarding. When his certificate matures, the holder of the maturing certificate will receive a striking demonstration of the advantages of investment and of the solidity of the gold basis of the rupee. It is legitimate to hope that the certificates will greatly assist in an ultimate solution of the problem of India's hoards. As soon as it has been established by experience as a certainty that gold is always forthcoming for the certificates on maturity, it is to be expected that there will be a gradual replacement of hoards by certificates. We should thus be achieving the chief benefit that is claimed for a gold currency without any of the risk, expense and inconvenience involved in putting gold into circulation. The benefits to be derived from the carrying out of this proposal need no emphasis. It will attract stores of wealth, great in the aggregate, and at present lying wastefully inert, to their right function of meeting the needs of India for productive capital expenditure.

Convertibility of Notes into Silver Rupees.

69. The termination of the anomalous provision by which one form of note, the paper note, is convertible by law into another form, the silver note, is an essential step in Indian currency reform which must be taken sooner or later. The existence of this obligation has in the past placed, and may conceivably again place, the currency system of the country completely at the mercy of the price of silver. Prudence clearly demands that such a risk, however remote, should be provided against if possible. Moreover, it entails keeping in the currency reserve, for

purposes of internal convertibility, a large stock of silver which for external purposes is of little value. When most needed it is liable to prove incapable of realisation. No opportunity for the termination of this obligatory convertibility is likely to be so favourable as the present, when, by making the notes convertible into gold bars for all purposes, a more solid right of convertibility is attached to them than they have ever had since silver ceased to be a reliable standard of value. The obligation must continue in relation to the present currency notes so long as those notes remain in circulation, because the Government's promise to redeem them in rupees must be religiously kept. But we recommend that no legal obligation for conversion into silver rupees should attach to the new notes, the issue of which we propose below. At the same time we think it essential to provide facilities for the free exchange of notes for rupees so long as the people desire to obtain metallic rupees in exchange for them. The people of India have for centuries been habituated to a metallic currency, and to the use of the rupee as a standard coin, and although the one-rupee note has been readily accepted in many parts of the country, notably in the jute districts of Bengal, it would be unwise to attempt to force paper money upon the people against their will. Experience has shown that the best way to foster the use of currency notes is to establish confidence in their practical convertibility, and this confidence has been secured not so much by a legal obligation to encash them at currency offices as by making rupees readily available to the public at centres where there is a demand for them. The public are more concerned with practical facilities of this kind than with legal rights, and if these facilities were withdrawn or seriously curtailed, the growth of the note circulation would probably be checked, and the popularity of the new notes would be endangered. For these reasons we propose to make it incumbent on the currency authority (subject to the reservation indicated in paragraph 135 below) to make rupees and other coin freely available to the public in such quantities as may be required for circulation. Our recommendation implies that the coinage of silver rupees should be stopped for a long time to come, until the amount of silver rupees in circulation is reduced to the amount required for small change.

70. Since there are at present approximately Rs. 85* crores of silver coin and bullion in the reserves and further quantities of rupees may be expected to come out of hoard in due course, a long period must elapse before there is any possibility of the slightest practical difficulty in converting any note that is presented into silver rupees. Practically, therefore, the change in the legal status of the notes should be quite unfelt, and before the present

* See first footnote on page 6.

stock of rupees runs low the stabilisation of the rupee in terms of gold will have had time to establish confidence in the note issue on a basis too firm to be shaken.

71. The removal of the legal obligation to convert notes into silver coin will, we believe, secure the object* which the scheme for the dethronement of the rupee was largely designed to secure. In the first place, it enables silver to be eliminated as a predominant element from the reserves, which are thereby simplified and placed on a sounder basis than they have ever had before. Secondly it prepares the way for getting rid of the threat to the currency inherent in the possibility of a rise in the price of silver. To counter that threat, one must be in a position to replace silver rupees by some cheaper form of currency, and one cannot do so as long as the rupee is one of the bases of convertibility of the note. When no rupees have to be held to secure convertibility of notes, when the public have been made familiar with the use of the one-rupee note as recommended below, and when all forms of internal currency have been firmly based on gold, no insuperable difficulty will arise in meeting the situation should the silver rupee, owing to a rise in the price of silver above the " rupee melting point," disappear from circulation.

Issue of One Rupee Notes.

72. We recommend that the currency authority should, concurrently with the first issue of notes of the new status, re-introduce one-rupee notes, which should be full legal tender and which, like other notes of the new status, should not be convertible by law into silver rupees. In spite of the fact that the issue of one-rupee notes may retard the absorption of the surplus silver rupees now in the Reserve, we consider it worth while incurring such retardation in order to popularise the use of notes, and to prepare the way for dealing with such an emergency as a rise in the price of silver above the melting point of the rupee. The alleged comparative expense of small notes seems a consideration that is negligible in comparison with these advantages. We do not recommend the re-introduction of $2\frac{1}{2}$ rupee notes.

Convertibility of Other Notes into Legal Tender Money.

73. When the present legal right to obtain silver rupees in exchange for notes is withdrawn, it will be necessary to give the public a right to obtain change for the notes in some other form; and we propose to impose a statutory obligation on the currency authority to convert all notes, other than the one-rupee note, on demand into legal tender money, *i.e.*, into notes of smaller

* *See* para. 34 (*a*).

denominations or silver rupees at the option of the currency authority. This statutory provision would in form leave it optional with the currency authority to determine the form of legal tender money to be supplied, but as explained elsewhere we propose to ensure that all reasonable demands of the public for metallic currency shall be met in practice.

74. We are wholly opposed to any alteration in the legal tender character of the silver rupee. The reasons which have been urged for the withdrawal of its legal tender character are overcome, in so far as they are valid, by the above provisions.

Unification of the Paper Currency and the Gold Standard Reserves.

75. Experience has shown that it is impossible to discriminate scientifically between the purposes for which the Paper Currency and Gold Standard Reserves are maintained. As indicated above, the Paper Currency Reserve has to be used in some measure to support exchange and the Gold Standard Reserve has to be used in some measure to secure the external convertibility of the note. But at present the further factor of the legal convertibility of the note into internal currency gives a special character to the Paper Currency Reserve. With the removal of the latter difficulty by our proposals in the preceding paragraphs, the way will be clear for the amalgamation of the two Reserves, a step which will assimilate the Indian system to other currency systems. The combined Reserve will then be simpler and more intelligible to the public, and can be made more efficient in its working.

Composition of the Combined Reserve.

76. We shall discuss our proposals as to the constitution and working of the combined Reserve more fully in a later section of the Report. We shall refer to them here in a generalised form in so far as it is essential to bring out the principles of the proposed system.

77. We propose, in the first place, that the proportions and composition of the combined Reserve should be fixed by statute. This is a provision essential to any currency system in order to secure the automatic expansion and contraction of the currency and the compensatory effect of the exchanges, in accordance with the needs of the country. The lack of any such provision in the case of the Gold Standard Reserve was the chief weakness in the pre-war system and was responsible for its more conspicuous failures.

78. We next propose that it should be laid down that gold and gold securities should form not less than 40 per cent. of the Reserve. In view of the nature and extent of the obligations

with regard to the provision of gold which we propose should be placed on the currency authority, that authority should strive to work to a reserve ratio of from 50 to 60 per cent. In the event of the proposed gold savings certificates proving a popular form of investment, the possible demands for gold by Government for payment of these certificates on maturity would no doubt necessitate a further strengthening of the gold holding in the Reserve, but to what extent experience alone can show. The holding of gold, which now stands at about 12·8 per cent., should be raised to 20 per cent. as soon as possible, and in any case in not more than 5 years, and to 25 per cent. in 10 years, with a minimum of Rs. 30 crores from the outset. This would give a minimum of about Rs. 60 crores after 10 years on the basis of the present circulation. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape.

79. This fortification of the Reserve is needed to secure confidence in the note in view of the new obligations proposed in paragraph 59 above and the new status of the note proposed in paragraph 141. It should be made in any case, whether or not it be held that the scheme now proposed should ultimately be supplemented by a gold currency. Even if it be held that there should ultimately be a gold currency, these provisions ensure that a beginning be made with the accumulation of an additional gold holding with the minimum of risk and expense and in such a manner as to cause the least possible disturbance to the world's gold and silver markets, with their inevitable repercussions on India and on the finances of India.

80. Silver reserves are ordinarily out of place in a gold standard system. But in India, silver coin forms a large proportion of the total circulation. There is a seasonal ebb-and-flow of considerable dimensions in this form of currency, and it is necessary to hold a considerable quantity of rupees in the Reserve to meet genuine demands for purposes of circulation. With the growing use of one-rupee notes these demands will, we hope, be reduced. In any case the present stock of rupees is unduly large. We therefore make a recommendation (paragraph 145 below), which will have the effect of ensuring the gradual reduction of the silver holding in the Reserve, during a transitional period of 10 years, from the present figure of Rs. 85* crores to Rs. 25 crores, on the basis of the present circulation.

81. We recommend that the balance of the Reserve be held in Government of India rupee securities and self-liquidating trade bills. For reasons which will be explained later, it is desirable to limit the holding of Government of India rupee securities to 25 per cent. of the Reserve, or Rs. 50 crores, whichever is less.

82. The new Reserve will have to maintain the external convertibility of a circulation which includes both paper and silver

* See first footnote on page 6.

tokens. As regards the former, the liability will, of course, be equal to the total outstanding note circulation. But in the case of the silver rupee such a cent. per cent. backing is neither possible nor desirable. There is obviously an irreducible minimum below which the rupee circulation cannot fall, if the business of the country is to be carried on. Moreover, even of that portion of the silver circulation which is potentially contractible only the difference between the face value and the realisable bullion value need be covered. Any estimate on such a subject must be largely conjectural and subject to variations in the price and marketability of silver. We have fixed a more or less arbitrary figure of Rs. 50 crores as the assumed liability of the Reserve in respect of the contractibility of the rupee circulation.

III.—A CENTRAL BANK FOR INDIA.

83. So far we have dealt with the standard of currency. We now proceed to deal with the question of the authority who should control the working of that standard.

The evidence has clearly brought out the inherent weakness of a system in which the control of currency and of credit is in the hands of two distinct authorities whose policies may be widely divergent, and in which the currency and banking reserves are controlled and managed separately one from the other. It has brought out the necessity of a unity of policy in the control of currency and credit in a modern financial organisation, if monetary stability is to be achieved. What has less clearly emerged from the evidence but none the less needs emphasis is how essential it is for the development of banking generally that the foundations of the credit organisation should be truly laid. This will only be the case if the commercial banks (a phrase in which are included both exchange and indigenous banks) are able, when the necessity arises, to turn into cash a maximum of their assets with a minimum of disturbance to general conditions. It is only through the establishment of a central banking system, with the facilities of re-discounting it affords, that this end can be achieved. Not until then does the commercial banks' most legitimate asset, viz., a short-term advance against goods in the form of a commercial bill, become a quick asset capable of prompt realisation in times of stress. The system, in fact, enables the commercial banks to regard their holdings of commercial bills as their secondary reserves.

84. The economic history of the great trading nations of the world during the last half-century demonstrates, far more clearly than any technical exposition of the workings of the system could demonstrate, the high efficiency of the system and its benign influence upon economic progress, wherever

it has been introduced. The United States of America has been one of the last to adopt it. It has done so under the stress of its disastrous experience of regularly and frequently recurring financial upheavals of gigantic proportions, directly traceable to the weakness of the system of decentralised banking and currency reserves. There are not a few students of financial affairs who hold that, if it had not been for the timely introduction of the Federal Reserve System in 1913, it is doubtful whether America, in spite of its enormous economic advantages, could have weathered the stress of the great war without grievous harm to its financial structure.

85. The Central Banks in other countries work under charters which, though differing in detail, are very similar as regards their fundamental lines. In general they are entrusted with the sole right of note issue and the responsibility of maintaining the stability of the currency. They are the custodians of the currency and banking reserves and of the cash balances of their Governments. Their business, in the main, is confined to that of a bank of the banks and of the Government. These functions of necessity require that the character of their business should be of the soundest. Such limitations upon their business prevent these Central Banks from transacting the every-day commercial banking business of the country or from entering into competition with the commercial banks in any general sense. But, in times of stress, they intervene vigorously in the country's business by extending credit facilities liberally. They are primarily concerned with upholding the credit of the country and guiding its financial policy.

We are of opinion that India, profiting by the experience of other nations, should perfect her currency and credit organisation by setting up a Central Bank with a charter framed on lines which experience has proved to be sound.

86. Before dealing with the technical questions of the Indian charter, it is necessary to consider who is to be entrusted with it. Should it be the Imperial Bank (which is now performing at any rate one or two of the functions of a Central Bank) or should it be a wholly new institution? The idea of utilising the existing organisation of the Imperial Bank is tempting at first sight, but on close consideration it will be found that, whatever advantages there may be in this course, the disadvantages outweigh them.

87. If the Imperial Bank were required to discharge the duties of a true Central Bank its charter would have to be amended radically in the direction indicated. It would thus be precluded from undertaking a great many tasks which it now successfully performs as a commercial bank. The country would then lose the benefit of the elaborate and widespread organisation which has been set up, through the length and breadth of India,

to make available to the community the increased commercial banking facilities, which are so urgently needed, and to assist in fostering, among the people as a whole, the habit of banking and investment. This consideration alone negatives the idea of disturbing the present functions of the Imperial Bank. It suggests, on the contrary, that that bank should be freed altogether from the restrictions which its present charter imposes upon it, and which clearly have their origin in the hybrid character of the functions which were originally assigned to it. When those of a purely central banking character are taken over—as they should be—by the new Central Bank, there is no longer any reason why the Imperial Bank should not be as free and unencumbered in its sphere of activity as any other of the commercial banks. Its important task of giving India the widespread banking facilities which it needs will thereby be facilitated. It may perhaps be apprehended that with the creation of the Central Bank the Imperial Bank will lose some of the prestige which at present attaches to it as the sole banker of the Government. But there are numerous ways in which its interests and its ability to continue its present policy of the extension of branch banking may be safeguarded. We can see no reason to doubt that the Imperial Bank could come to a satisfactory agreement with the new Central Bank whereby the latter would employ the former as its agents in the *mofussil* and, in consideration of this service, place at the disposal of the Imperial Bank such funds and for such periods as would be required to enable the Imperial Bank's branches to become self-supporting.

88. A middle course which has been suggested, and which has for its object a gradual process of what may be termed "decommercialisation" of the Imperial Bank, is equally unattractive. The proposal is to confine the Bank's functions to those of a true Central Bank in the centres where adequate commercial banking facilities exist, and to permit it to do the ordinary commercial banking business in all those localities where, apart from the Imperial Bank, there is no other reputable bank established. It is proposed that only when in these localities one or two commercial banks have opened their establishments should the business of the Imperial Bank's branch be restricted to that of a Central Bank. This proposal suffers in the main from the same disadvantage that attaches to an immediate and complete conversion of the Imperial Bank into a Central Bank. Under it the Imperial Bank would be eliminated from the field of commercial banking in all the important centres (such as Bombay, Calcutta, Madras, etc.), and the wholesome competition it provides would thus be lost, while its hybrid character would be likely to weaken its functions both as a Central Bank in the important centres and as a commercial bank in the smaller centres.

89. We come, therefore, to the conclusion that the proper course to take is to entrust the central banking functions to a new organisation endowed with a charter which wholly conforms to the requirements of a true Central Bank. That new bank would no doubt take over from the Imperial Bank such part of its organisation and staff as under the new order of things may become redundant to the purposes of the Imperial Bank, and from the Government a number of officials whose experience in the management of the currency would be of particular help to the new Central Bank.

90. The future relations between the Government of India, the Central Bank, and the Imperial Bank, must be matters for negotiation between the parties concerned, and for that reason we refrain from making detailed recommendations under this heading. We desire however to state that in our opinion those negotiations, and the relations which they establish, should recognise the principle that there is work to be done in developing banking facilities, so essential in the interests of the Indian people, which the Imperial Bank has been doing, and can continue to do so long only as it receives some measure of official countenance and support. The banking organisation which India requires must be based, not upon a Central Bank alone as elsewhere, but upon a Central Bank, and a great commercial bank which has government countenance to inspire confidence in it amongst an uninstructed public, and whatever government assistance is needed to enable it to perform the function of the initiator of banking facilities. As to the extent of that assistance, we content ourselves with the observation that it should be designed to enable the Imperial Bank to maintain and develop its essential work of the provision of new branches.

The Capital of the Central Bank.

91. There is no need, nor is it in fact desirable, that a Central Bank should be endowed with any very great amount of capital. It is natural that those in charge of the Bank's affairs should desire to give to the shareholders as good a return as possible. The greater the capital, the greater must the profits be in order to produce a given return, and the greater therefore the incentive for the management to do business which it might be better to avoid. Moreover, we propose in a later paragraph that the Government should be entitled to a share of the profits of the Bank after a fixed preferred dividend has been allocated to the shareholders. If the capital of the Bank should be larger than is really required—and in the present state of development of the Indian rediscount market, the capital which is required for the business of the new Bank at the outset cannot be very large—the profit which accrues to Government would be considerably reduced on account of the preferred dividend on non-earning capital. Again,

while it would be possible to increase the capital later if found necessary, it would be somewhat difficult to reduce it. Taking these considerations into account, we are of opinion that a fully paid up capital of Rs. 5 crores would be sufficient, allowing even for a material expansion of banking in India.

The Imperial Bank will be called upon to give up to the new Central Bank some of the privileges it now enjoys. It is right, therefore, that the Imperial Bank's shareholders should be given the first opportunity of subscribing for the capital stock of the Central Bank. This is a valuable concession, for experience shows that the business of central banking is a profitable one, and that central bank stock in other countries usually ranks as high in the estimation of investors as Government securities.

The Name of the Bank.

92. This is largely a matter of taste and local psychology. After considering various alternatives, we suggest that the new bank be called the "Reserve Bank of India."

Board and Management.

93. The difficult problem of co-ordinating the management of a banking organisation with important establishments widely separated and with business widely differing in character in the various parts of the country, seems to have been solved by the Imperial Bank of India. The system of local head offices in the chief business centres, managed by Local Boards who are elected by the shareholders registered in the respective branch registers, appears to us to be as appropriate to the organisation of the Reserve Bank as it is to that of the Imperial Bank. The provisions of sections 23, 24, 25 and 26 of the Imperial Bank of India Act, 1920, should therefore be embodied in the charter of the Reserve Bank. The provisions regarding the election of members of Local Boards, etc., as embodied in regulations 43 to 48 inclusive, should similarly be followed, except in one respect. The term of office of the Presidents and Vice-Presidents of Local Boards, which, under the Imperial Bank Act, is fixed at one year, is too short to conduce to efficient work. We therefore recommend that the period be extended to two years, and that the limitation contained in regulation 44 (1), that no person shall be chosen to be President or Vice-President twice in succession, should be omitted.

94. Resolutions passed both by the International Financial Conference of Brussels (1920) and that of Genoa (1922) recommend, in identical terms, that "Banks, and especially Banks of Issue, should be free from political pressure, and should be conducted solely on lines of prudent finance." In the spirit of these resolutions, care should be taken to assure that a pre-

dominant majority of members of the Local as well as the Central Boards of the Bank should derive their mandate from the shareholders of the Bank by election, and that only a small minority of the Board should be nominated by Government. It has been sometimes urged that all members of the Board of a Central Bank of Issue should derive their mandate solely from the shareholders, none being nominated by the Government, but we consider that, in the particular circumstances of India, viz., the wide experience of the Government in the management of the currency and the great importance of the Government's banking and remittance business, it would not merely be appropriate but desirable that the Government should nominate a small minority of members on the Central Board, the members of the Local Boards being, as hitherto, elected solely by shareholders of the respective branch registers. We accordingly propose that the new charter should provide for the Central Board to be constituted as follows:—

(a) The Presidents and Vice-Presidents of the Local Boards established by the Act. In addition, each Local Board to select from among its members, by a majority vote, one member to serve on the Central Board for two years.

(b) A Managing Governor and a Deputy Managing Governor, who shall be persons of appropriate experience, and who shall devote their whole time to the affairs of the Bank, to be appointed by the Governor-General in Council for a period of five years, on salaries and allowances to be determined by the Central Board.

(c) Such number of persons, not exceeding three, and not being officers of the Government, as may be nominated by the Governor-General in Council. Such persons shall hold office for one year, but may be re-nominated.

The Central Board would thus be composed of 14 members, of whom nine would be elected by shareholders, a maximum of three would be nominated by the Governor-General in Council, and a Managing Governor and Deputy Managing Governor would also be nominated by the Governor-General in Council. In addition to the above 14 members, the Government should be entitled to nominate an official member to the Board who should have the right and duty to attend and advise the Board but not to vote.

Such a constitution will leave the Reserve Bank free from interference from the Executive in the day to day conduct of its business and in banking policy, a condition which we consider of paramount importance. At the same time, the Government, through its representative on the Central Board, will be kept closely in touch with the Bank, and there will be the mutual advantage of close co-ordination between the currency and credit policy and the financial policy of the country.

Sections 29 and 30 of the Imperial Bank Act should be embodied in the new charter.

95. To eliminate the danger of political pressure being exercised upon the Boards of the Reserve Bank, it is desirable to introduce a provision in its charter directing that no person shall be appointed President or Vice-President of a Local Board, or shall be nominated as a member of the Central Board, if he is a member of the Governor-General's Council, the Council of State, the Legislative Assembly, or of any of the Provincial Governments or Legislative Councils.

96. The Reserve Bank's principal function being to rediscount bankable bills held by the commercial banks, it is desirable that the Boards of the Reserve Bank should exercise their unfettered discretion in accepting or rejecting such paper, and it is therefore undesirable that representatives of any of the commercial banks should hold the position of President, Vice-President or member of a Local Board or that of member of the Central Board. A provision to this effect should be embodied in the charter.

Head Office.

97. The Head Office of the Bank should be established in Bombay, and the meetings of the Central Board should ordinarily be held there.

Votes of Shareholders at General Meetings.

98. Care must be taken to ensure that the policy of the Reserve Bank is governed by purely national considerations, and is not influenced by the interests of any individual section of the community. It is undesirable that it should be possible for any particular group to acquire control of the affairs of the Bank and impose its policy upon the country. It is imperative, therefore, to limit the number of votes which each shareholder is entitled to exercise, whatever his shareholding may be. Accordingly, a provision should be introduced into the charter that shareholders shall have one vote for every four shares (assuming that the shares are of Rs.500), of which they have been the registered holders for not less than six months, no shareholder, however, being entitled to have more than a total of ten votes, whether in his own name or as proxy.

The discretion which would be vested in the Local Boards (under the provision corresponding to section 26 of the Imperial Bank of India Act), to approve or refuse to approve transfers of shares, would also be exercised when necessary with a view to preventing the multiplication of individuals' voting power by transfer to nominees.

Division of Profits.

99. The business of a Central Bank should not be run mainly for profit. Dividends should be limited to a reasonable return on its capital, adequate provision being made for building up substantial reserves, especially in the earlier years. Limitation of the dividend must also be considered in connection with the question how the Government of India is to be compensated for handing over to the Reserve Bank the assets of the Paper Currency and Gold Standard Reserves, and the profits arising from the right of note issue. The simplest and most convenient way in which the Government could be compensated is by allocating to it certain of the surplus profits of the Bank above a limited dividend. We recommend that a plan of dividing profits in the following manner be adopted.

100. After making provision for bad and doubtful debts, depreciation in assets, and all such items as are usually provided for by bankers, and after payment out of the net profits of a cumulative dividend at the rate of five* per cent. per annum on the paid-up capital, there should be allocated to the reserve fund, until such reserve fund is equal to 25 per cent. of the paid-up capital, three-quarters of the surplus, and one-quarter to the Government. Thereafter, until the reserve fund is equal to the paid-up capital of the Bank, one-half of the surplus should be allocated to the reserve fund and the other half to the Government. When the reserve fund is equal to the paid-up capital of the Bank, one-eighth of the surplus, but not exceeding three* per cent. of the paid-up capital, should be paid to the shareholders, and the balance to the Government.

We must here anticipate an objection that may be raised against the above scheme, namely, that it is proposed to build up the reserve too rapidly, and at the expense of the "profits" which under the existing system would go to the taxpayer's relief. The present practice under which the profit from the Reserves is not available for the fortification of the Reserves is not in our opinion a sound one. But, even looking at the question from the standpoint of political expediency, we do not consider that our proposal would involve a fresh burden on the taxpayer. The maximum diversion of Government revenue to the accumulation of the reserve is only Rs.5 crores, and this should in our opinion be set against the resources which would be placed at the disposal of Government as a consequence of the amalgamation of the Gold Standard Reserve and the Paper Currency Reserve (*vide* paragraph 145 below), and which even if not immediately realised could no doubt be brought to the credit of revenue in the earlier

* These figures are quoted illustratively, and are subject to alteration in view of market conditions.

years, when the profits handed over by the Bank were not yet equal to those at present accruing from the Reserves. Strongly as we feel that the new Bank's reserves should be built up as rapidly as possible, we should not have recommended a fortification of the reserves at the rate proposed had we not been confident that it could be achieved without any fresh taxation or postponement of remissions of taxation.

Increase of Capital of the Bank.

101. The capital of the Bank might be increased by the Central Board from time to time with the approval of the Governor-General in Council, and the price at which shares might be issued for that purpose should be determined by the Central Board with the approval of the Governor-General in Council.

Business of the Bank.

102. In a separate schedule (Schedule II) attached to this Report we have drawn up a list of the business which the Bank might do and that which it might not do, and we recommend that it be embodied in the charter. The list has been drawn up on the basis of two principles, viz., that the Bank should be a true Central Bank and that its functions and capacities should be so organised as to secure that it should be made use of without suspicion or jealousy as the Bankers' Bank. We have advisedly made no provision in that schedule for the Reserve Bank having recourse to direct operations in the bill market; not that such a provision is unnecessary—we regard it as a cardinal provision in the charter of a true Central Bank if it is properly to discharge its primary duty of regulating credit and maintaining the stability of the currency; but in the present state of development of the bill market in India, we do not consider that open market operations by the Reserve Bank are an indispensable method for carrying out its credit policy. Rather we think that this development should follow in the wake of banking progress and the growth of a large and healthy bill market. Experience in other countries shows that with the creation of a Central Bank, and the consequential development of a sound banking system, the bill market comes into being in a surprisingly short time. In India, where the hundi or internal bill of exchange has been in existence for many years, we hope the growth of the habit of drawing bills instead of opening cash credits will be more rapid than elsewhere. In order to provide for such future development, the charter should enable the Reserve Bank to apply to the Governor-General in Council for power to buy and sell in the market bills of exchange, promissory notes or other commercial paper arising out of *bona fide* commercial or trade transactions bearing two or more good signatures and having a maturity not exceeding 90 days, if and when it finds such powers necessary to the

performance of its function of regulating the supply of credit. In deciding whether to grant or refuse this application, the Governor-General in Council would of course give due consideration to the possible effect, on the various classes of persons concerned, of the operation of the proposed new procedure. To avoid ambiguity, we should state that our proposal is that this power, if and when granted, should be granted once and for all; not that it should have to be applied for on each occasion.

Remittances for Financing the Home Treasury.

103. We recommend that the Reserve Bank should be entrusted with all the remittance operations of the Government in India and in London. The Government will thus cease directly to operate in the exchange market.

Such an arrangement is the natural consequence of the establishment of a Central Bank of issue. The business of remittance is essentially banking business. Since the bank of issue must be the bank of the Government in other matters, it is convenient and, as will be seen, essential that it should be so in this matter also; and it may be assumed that it will be able to transact the business at least as economically as the Government. Further, an obligation is imposed upon the Bank to maintain the value of the currency. The annual remittance on Government account amounts to some £35 millions, a large sum in proportion to the total foreign remittance business of the country. The time and method of making these remittances have an intimate connection* with the Bank's discharge of its obligations. It would be difficult, if not impossible, for the Bank to discharge its essential obligation to the currency unless it conducted the remittance business of the Government.

104. On the other hand, it has been suggested that the Reserve Bank, through its exclusive knowledge of its own bank rate policy, would, if allowed to deal in the exchange market, be placed in a position of undue advantage as compared with other banks and firms. Such an objection might perhaps legitimately be made if it were proposed to hand over the control of the currency, and the conduct of Government remittance, to a bank competing with other banks for ordinary commercial business. But it is misconceived, made in relation to a transfer to such a Bank as we propose. In that institution the other banks of the country will find, not a state-aided competitor, but a coadjutor and a potential source of support. The exchange operations of the Bank will normally be limited to the *bona fide* requirements of its customers (including the actual requirements of the

* The action of the Government by which in recent years part of the remittance first put through the treasury was subsequently put through currency, shows that the Government cannot carry on its remittance operations irrespective of their effect on the Indian money market or on currency policy.

Secretary of State) and to its necessary operations through and on account of the Reserve. We may point out that such operations may be necessary to the discharge of the responsibilities of the Bank, not only in the routine course of business, but in order to enable it to co-operate with other central banks in those joint measures which are increasingly necessary for the proper co-ordination of monetary policies. There is, therefore, no reason to suppose that its operations will be in any way to the disadvantage of the market.

105. It has been suggested that the Secretary of State has constitutional and statutory responsibilities to Parliament (including the particular responsibility to the holders of India sterling debt) which make it impossible for him to be satisfied with an obligation undertaken by a bank, however pre-eminent in status, to keep him supplied with funds. We are, however, unable to find that the duties and responsibilities laid upon the Secretary of State in relation to financial commitments in the United Kingdom are different in kind or extent from those laid upon him in relation to financial commitments in India, which are similarly incurred in his name. The latter are already discharged on his behalf by the Government of India, and are to some extent discharged through the agency of the Imperial Bank. If the Secretary of State is able to entrust to duly authorised agents the carrying out of his debt and remittance obligations in India, he may be satisfied similarly to employ an agent to keep him in funds for the implementing of his obligations in the United Kingdom. The employment of an agent does not imply the abrogation of the ultimate control and responsibility vested in the Secretary of the State. Should the agent not discharge the obligations which it has accepted, the power of the Secretary of State himself to discharge his own obligations is in no way qualified or diminished.

106. When arrangements have been made for the transfer of the conduct of Government remittance to the Reserve Bank, it will be necessary for the successful discharge of that function that the Secretary of State should furnish to the Bank in advance, through the Government of India, periodical information as to his requirements. It has been suggested in evidence that it would not be possible to forecast with accuracy the requirements for any considerable length of time ahead. Occasions may obviously arise when unexpected commitments, or increases of existing commitments, may materialise on a large scale. Any scheme must provide for meeting such a contingency, which would no doubt be of rare occurrence. But a great part of the Secretary of State's commitments are in respect of payments which are regularly recurring, or at least easily foreseeable; and it should not as a rule be difficult to produce reasonably accurate forecasts of the funds required. As regards minor variations between estimates and actuals, no difficulty is likely to arise. It is not, of course, suggested that it should be laid down that estimates

once furnished must be rigidly adhered to. The Bank would be primarily responsible for the programme of remittance, after giving due regard to the views of the Government of India. The Secretary of State will no doubt retain a working balance sufficient to ensure his having funds available to meet any ordinary and foreseeable excess of actual over expected expenditure.

107. The question by what methods the Government remittances to London should be made has in recent times occupied a prominent place in all discussions of the Indian currency system. With the creation of the Reserve Bank, the transfer to it of the remittance business, and the withdrawal of Government from active operations in the exchange market, the significance of these questions will be greatly reduced. If the Bank is given the right and duty of conducting the official remittance business, as part of its larger function of managing the currency and credit system as a whole, it should clearly be left free, at its discretion, to employ such method or methods as it may find most convenient and conducive to the smooth running of the machine. Under the new conditions, experience will soon teach—while nothing else can teach—by what methods the interests, commercial and financial, of the country can best be served.

108. We observe that the method of remittance by the purchase of sterling in the market in India, instead of the sale of council bills in London, has recently been introduced with advantage. We have received much evidence as to the respective merits of private purchase of sterling and of public tender. The main objections urged against the former system are that it involves undesirable secrecy and the possibility of favouritism, and against the latter that it is conducted by the Secretary of State in London. With regard to the latter objection, we are of opinion that the method of public tender could be employed in India with almost as much practical facility as it has been applied in London and with equal convenience to the commercial public. As regards the former, we recognise that there is some force in the objections under present conditions, but these will cease to have any weight when once the system proposed under our plan has been introduced and the obligation placed upon the Bank to buy and sell gold at the prescribed prices. Beyond these observations we do not desire to go in the direction of prescribing or limiting the methods of remittance to be employed by the Bank. To fetter its discretion in advance must be to waste the lessons of experience.

109. It is to be observed that the exchange operations of the Bank, although effected in large measure to meet the requirements of the Government, will not be the operations of the Government. The question, therefore, of publicity does not arise in connection with these operations, as it arises in the case of the exchange operations conducted directly by the

Government. We consider that the occasional suspicion attached to these remittance operations has been intimately connected with the circumstance that the maintenance of exchange at a certain rate was dependent to some extent on the discretion of Government. Having regard to the statutory obligation which we propose should be imposed on the Bank, to maintain the Indian currency stable within the gold points of a fixed parity, we see no urgent reason for the publication of these exchange transactions.

Remittance during the Transition Period.

110. We do not recommend any general departure from present practice in the matter of purchase of sterling, pending the transfer of the business of remittance to the Bank. At the same time, in view of the observation which we have made on the subject of purchase by public tender, we recommend that, in order to obtain valuable experience, a trial be made of that system in India on the first suitable opportunity, purchases in the market being employed only for the purpose of "intermediates" on days when tenders are not received. In the case of intermediate purchases also, we recommend that a trial be made of the system of offering fixed prices, to be publicly announced. Further, until the business of remittance is transferred to the Reserve Bank, we recommend that a weekly return should henceforward be published by the Government showing its remittances in the preceding week, and the manner in which they were made.

Relations of the Bank, the Government of India and the Secretary of State.

111. It has already been indicated, in general terms, that it is one of the primary functions of the Reserve Bank to act as the banker of the Government and to hold its cash balances. The centralisation in its hands of these balances and of the banking reserves in India of all banks operating in India is an indispensable condition for the proper discharge of the Reserve Bank's primary duty of controlling credit and consequently the volume of the monetary circulation. It is no less indispensable that all the remittance transactions of the Government should be entrusted to it, as recommended in the preceding paragraphs, and that any balances of the Government of India and of the Secretary of State outside India should be placed in the charge of the Reserve Bank, through its branches or agencies. Only then will any danger of the Government's remittance policy interfering with the proper management of the currency be eliminated. We recognise that this recommendation involves the amendment of section 23 of the Government of India Act. We recommend that such an amendment should be made.

112. The fact that Government balances held with the Imperial Bank in India bore no interest, while funds held in London could be employed remuneratively in the money market, appears in the past to have led at times to unduly large accumulations of funds in London. As the proposed plan contemplates that the surplus profits of the Bank should accrue to the Government, there appears to be no longer any good reason why this practice, militating as it inevitably does against the smooth working of the management of credit and currency, should be continued. The arrangement contemplated need not impair the valuable connection of the Bank of England with Indian financial affairs, as the Reserve Bank would, without doubt, closely collaborate with it in the ordinary course.

Note Issue and Reserve Requirements.

General observations.

113. Before setting out in detail the conditions which are to govern the note issue of the Reserve Bank under the proposed plan, a few general observations must be made on the Bank's responsibilities, and the machinery by which it is enabled to discharge them.

The primary task of the Bank.

114. The goal of all monetary policy is the achievement of stability of the purchasing power of the monetary unit, and the condition under which the sole right of note issue is entrusted to the Bank must clearly be the obligation to maintain stable the purchasing power of the rupee, both internally and externally. This stability will find expression internally in the stability of the general level of commodity prices, and externally in the stability of the purchasing power of the monetary unit in relation to gold, and consequently in relation to all exchanges with countries whose currencies are linked to gold through either a gold or a gold exchange standard. To assure this stability, it is indispensable that the obligation should be put upon the Bank at all times to buy and sell gold at fixed prices which are laid down in the charter. The question as to what these prices should be will be discussed later on.

The means to accomplish it.

115. What is the machinery which enables the Reserve Bank to undertake this obligation? The sole right of note issue, and the stoppage of all further issues of money by the Government of India except through the Bank, coupled with the power to impose upon the country a judicious credit policy—these give the Reserve Bank the means to control the volume of the monetary circulation in India, and thus to stabilise the purchasing power of the monetary unit. So long as the volume of the monetary

circulation does not exceed, or fall short of, the amount of money at any time needed for the exchange of the quantity of goods and services, which have to be exchanged (regard being had to the "velocity of circulation" and the frequency with which goods and services are exchanged), the purchasing power of the rupee will remain stable. The restriction of the monetary circulation within these limits is the fundamental condition for internal stability, while internal stability is the main factor to achieve external stability. To appreciate this, we need only think of the repercussions which instability of the general level of internal prices has upon the foreign trade of a country. A rise of internal prices (that is, a fall of the internal purchasing power of the monetary unit) relative to the world level of gold prices, will inevitably impede exports and stimulate imports, and cause the balance of foreign payments to be upset, and, with it, the exchanges. An internal depreciation of the monetary unit thus very soon produces external depreciation. The reverse is the case when internal prices fall below the world level of gold prices. It clearly follows that stability of internal prices in relation to the world level of gold prices will prevent those repercussions, and will therefore prevent instability of the external value of the monetary unit, that is, of the exchanges. And if the exchanges are stable, and keep within the upper or lower gold points set by the fixation of the price at which the Reserve Bank undertakes to buy and sell gold, it will not be called upon either to buy or sell gold. Provided, therefore, the Bank follows a judicious policy of limiting the monetary circulation to the actual needs of the country by an appropriate credit policy, and so keeps the internal value of the rupee stable, the obligation to buy and sell gold will cause it no embarrassment.

116. It is evident that a limitation of the monetary circulation to the real needs of the country postulates contraction and expansion of the currency in accordance with those needs. In a mainly agricultural country like India those needs fluctuate widely, not merely according to the seasons of the year, but also according to the abundance or otherwise of crops and the prices they command. If that part at any rate of the notes which the Bank issues to meet the need of expansion is secured by assets of a character corresponding to this need of expansion, that is, if these assets mature and are liquidated when the increased monetary circulation is no longer needed, the process of expansion and contraction becomes almost automatic. The true commercial bill, that is a bill drawn in respect of a genuine commercial transaction, has these characteristics in a pre-eminent degree. It is a self-liquidating asset in the sense that the liquidation of the commercial transaction liquidates the bill. It is for this reason that the charters of most of the central note-issuing banks provide for their note issues to be secured partly by commercial bills. The charter of the Reserve Bank of India should contain a similar pro-

vision. With a view to promote the growth of these commercial bills we recommend that the stamp duty on bills of exchange be abolished.* With the same aim, we also recommend the sale by post offices of bill forms in the English language and the vernacular in parallel.

We now turn to the other assets which are to be held by the Bank to secure its note issue.

Reserve to assure external stability.

117. While internal stability is a fundamental condition to assure the external stability of the rupee, it is nevertheless essential that the note issue should be secured to a substantial extent by assets which are capable of rectifying a temporary disequilibrium in the foreign balance of payments. Disequilibria are bound to occur, sometimes for seasonal causes, and sometimes for reasons of a bad harvest or financial stringency internally or externally. Gold and gold securities are the assets most suitable for this purpose, for they can be readily employed to discharge external liabilities, pending the adjustment of the disequilibrium through an appropriate credit policy by the Bank.

118. It is evident that the maximum amount which needs to be kept at any given time as a reserve to maintain the external value of the rupee is the amount by which India's payments abroad exceed her receipts from abroad at that time, or briefly, India's adverse balance of payments at any given time. But, as every sale of gold or gold exchange by the Reserve Bank operates in the direction of contracting the internal circulation, and as there is a point beyond which the contraction of the monetary circulation cannot be carried, it may be said that the size of the gold reserve need not exceed the maximum amount to which currency can be so withdrawn from circulation.

119. If notes were the only token money circulating in India, it would be a comparatively simple matter to determine to what extent they are to be secured by gold assets. The experience of other central note issuing banks is a valuable guide in this respect.

120. But the problem in India is a more complex one, due to the fact that the circulation of fiduciary money of unlimited legal tender in India consists of rupee coin as well as of notes, that the amount of rupee coin in issue cannot be assessed accurately, and that an unknown, but certainly substantial, proportion of

* It was stated in evidence that in America there was at one time a stamp duty on bills of exchange. It was found to restrict the development of the type of paper essential to the functioning of a money market, to render difficult the adjustment of the Federal Reserve Bank rates and to interfere with the operation of the Reserve Bank. This duty was the first to be abandoned when at the end of the recent war America undertook the reduction of taxation.

rupees in issue does not ordinarily serve as a medium of exchange, but is held as a store of wealth. Rupees which do not ordinarily serve as a medium of exchange, when employed for the purchase of gold at the Reserve Bank, do not cause a contraction of the monetary circulation in the accepted sense. Their use for this purpose does not therefore produce the automatic reaction on internal prices which is produced by a contraction of that part of the rupee circulation which is doing money's work.

121. The system of currency which we recommend makes it improbable, however, that these rupee hoards will be presented immediately for conversion into gold, for none of its provisions create an incentive to do so. It seems, nevertheless, desirable to provide for this contingency, for the Reserve Bank could obviously not face the strain and loss which would fall on it if these rupees were tendered in wholesale fashion for conversion into gold, and if it had to sell them for the value of their silver contents. To safeguard its position the following measures are recommended. There should be added to the liabilities, over and above the liabilities in respect of the note issue, an amount of Rs. 50 crores which is to be secured by assets in the same manner as if it formed part of the note issue. The Bank should, moreover, be given the right to deliver to the Government against payment in the form of notes, gold or gold securities (at the rate of Rs. 4 for each Rs. 5 of rupee coin), all the rupee coin coming into its possession in excess of certain specified amounts, which are to be regarded as the upper limits to which rupee coin may be held as a reserve asset.

122. The effect of this provision is that, if and when silver rupees are withdrawn from circulation as redundant, the obligation to finance the withdrawal falls on the Government of India, and that is the quarter in which it should fall, because it was the Government that put them into circulation. But to assist in the finance, under the five to four ratio the Government of India, as is reasonable, receive back from the reserves, *pari passu* with the withdrawal, an amount which may be regarded as roughly equivalent to the original profits on coinage, the proceeds of which, accumulated in the Gold Standard Reserve, we propose to make over to the Bank.

123. The official witnesses in India have submitted estimates tending to show that the total amount of rupee coin at present in issue is from 350 to 400 crores. Taking the latter figure, and deducting from it 150 crores, as the amount which, in their opinion, could in no event be spared from the circulation, they come to the conclusion that an amount of Rs.250 crores may be regarded as that part of the rupee circulation which does not primarily serve monetary purposes. Differences of opinion

exist as to the minimum amount of rupees required by the large masses of the Indian population for the carrying on of small transactions. We are unable to frame any reliable estimate of this amount, but we do think that, in order to establish the new system on the safest basis, we should take the safest figure of rupee contractibility, viz.: that put forward by the official witnesses, as our guide. The figure of 250 crores includes Rs. 85* crores of silver coin and bullion now held in the Paper Currency Reserve, of which, on the basis of the figures given for purposes of illustration in paragraph 144 below, 67 crores should be handed over to the Reserve Bank on taking over the note issue, while the balance of 18 crores should be retained by the Government for gradual disposal. If, as does not seem unlikely, the 67 crores gradually go into circulation, the total amount of rupees that might then be spared from circulation may be assumed to amount to about 232 crores. It is this amount which, while outstanding, would be secured by the 50 crores of addition to the Reserve. If and when these rupees come back from circulation and are delivered to the Government under the before-mentioned proposal, these 50 crores will be diminished at the rate of 1 rupee for every 5 rupees of redundant rupees delivered. In the event of further rupees being issued by Government on the Bank's demand, this process would, of course, be reversed.

124. Having in this manner provided for the possibility of hoarded rupees being converted into gold, it remains to deal with the gold and gold security reserve to be provided for that part of the monetary circulation, which truly serves as a medium of exchange. If it be assumed that 150 crores of rupee coin can in no circumstances be spared from the circulation—and this is the minimum estimate —we have finally to determine what proportion of the notes in issue can be spared from circulation, and what gold and gold security reserves should be held for the purpose.

The system of note issue.

125. Before we can proceed with this question further, it is necessary to consider the system of note issue which is likely to prove most suitable to the particular conditions of India, and which it is therefore desirable to adopt.

If we go by the precedents of the currency legislation of other countries, we have two well-defined systems to choose from.

126. There is first what may briefly be termed the fixed fiduciary issue system, which has been adopted by England under its Bank Charter Act of 1844. By this Act the Bank of

* See first footnote on page 6.

England is authorised to issue its own notes on the security of Government Debt to an amount fixed by statute. Any additional notes over and above this fixed fiduciary limit have to be secured by a gold backing of 100 per cent. The system rests on the thoroughly sound doctrine that there is a minimum of currency which must always remain in circulation unless the mechanism of exchange is to break down completely, and that, so long as the fiduciary issue is well within that minimum, there is no danger of the purchasing power of the currency being adversely affected.

127. The Act of 1844 requires the separation of the business of note issuing and banking into two separate departments—the Issue Department and the Banking Department. The Issue Department deals exclusively with the issue and redemption of notes. It holds the gold reserves, and creates on their security and on the security of the fixed amount of Government Debt all the notes that it is entitled to create under the Act. The notes so created and issued to the public constitute the active circulation, while the balance of notes created but not issued to the public constitutes the Reserve, which Reserve is held by the Banking Department. That Department is concerned with the discount, credit, and banking business generally. The size of that Reserve constitutes the limit to which the currency can be expanded. If more currency is needed (as, for instance, in a severe crisis), nothing remains but to suspend the Bank Act. That, as is well known, has happened three times in the history of the Act up to the outbreak of the great war.

128. It will be appreciated that, under this system, expansion or contraction of the note issue beyond the fixed fiduciary limit takes place at a rate exactly corresponding to the increase or decrease of the gold reserves. The system is a cautious one, but safety is secured at the expense of elasticity. In spite of its rigidity, however, the system has worked well in England, not because expansion and contraction are not as necessary there as they are in other countries, but because the widespread development of the joint stock banking organisation of the country has led to the cheque, and not the bank note, being the chief medium of exchange. Expansion and contraction of the currency in England thus takes place through the cheque currency, and so imparts to the system the necessary elasticity.

129. The other system which might be chosen is that in operation in many of the countries on the continent of Europe, in the United States under the Federal Reserve system, and in South Africa. It may conveniently be termed the proportional reserve system. The system does not require the note issuing and banking functions to be separated into two departments. Under it, the notes in active circulation are secured by a minimum percentage of gold or gold securities, which is laid

down by statute, and which is 40 per cent., in the case of the Federal Reserve System and in South Africa, and is less in other countries. These minima, however, are not rigidly fixed, but may be transgressed with the consent of the Government for short periods on the condition that the issuing bank pays a tax reckoned on the amount of the deficiency. This tax is made to rise steeply as the deficiency increases. It will be appreciated that the fact that the Government's permission has to be obtained, and that this permission is only given for comparatively short periods, and further, that the bank has to pay a steeply rising tax, forces the bank to take prompt measures to redress the situation by an appropriate credit policy. It will also be appreciated that, under this system, an actual suspension of the Bank Act need not take place.

130. Its chief characteristic is that expansion and contraction do not, as in the case of the fixed fiduciary issue, take place at the same rate as the gold reserves increase or decrease, but that it permits expansion, and forces contraction to take place (assuming as an example the Federal Reserve system) in the proportion of 100 : 40. An addition of 40 units to the gold reserve permits the bank to issue notes to the amount of 100 units. Conversely, a loss of reserves of 40 units forces a contraction of notes to the extent of 100 units. The system thus permits of a far wider range of expansion and contraction than the fixed fiduciary issue system. It should be mentioned, however, that the Central Banks working under this system ordinarily maintain a reserve ratio far above the legal minimum. Their reserve, in pre-war days under normal conditions, used to be in the neighbourhood of 50 to 60 per cent. The system, it will be seen, possesses the quality of elasticity to a far greater extent than the fixed fiduciary system. The objection is sometimes raised that, because of this greater elasticity, it lends itself to inflation, and is therefore less to be recommended than the fixed fiduciary issue system. It may, on the other hand, be said that, as the fixed fiduciary issue system can only work satisfactorily where the chief medium of payment is not the note but the cheque, the scope for inflation through an undue expansion of credit is just as great as it is in the case of the proportional reserve system, with legal tender money as the chief medium of exchange. Both systems obviously require prudence in the management of currency and credit.

Proportional reserve system recommended for India.

131. Joint stock banking and the use of the cheque as currency are already developing in India, but they can hardly be expected to develop sufficiently quickly to mitigate the rigidity of the fixed fiduciary issue system. In the past complaints have often been heard that the Indian paper currency has been made unduly rigid by the attempt to imitate the provisions of the English

Bank Charter Act. The need for seasonal expansion and contraction in India is particularly pronounced owing to the mainly agricultural character of its internal economy. We therefore recommend the adoption of a proportional reserve system of note issue; and the outlines of the charter presented later in this Report have been framed on that principle.

Gold and gold security reserve.

132. In the light of the experience of other note-issuing banks which are working this system, it seems safe to provide for the gold and gold securities in the reserve to be not less than 40 per cent. of the liabilities, *i.e.*, of the notes in issue *plus* the 50 crores on account of outstanding rupees. The Bank would, of course, in normal times, work to a percentage much higher than the 40 per cent. minimum.

Other reserves.

133. The remainder of these liabilities might be secured by Government of India rupee securities and rupee coin, though certain qualifying conditions should be made in regard to their use as reserve assets.

134. Dealing first with the use of rupee coin for the purpose, the following considerations are relevant. The scheme under consideration contemplates no statutory obligation upon the Reserve Bank to convert its own notes into rupee coin. There is therefore no logical necessity for the Bank to hold rupee coin in its Issue Department (though it will doubtless hold it in appropriate quantities in its Banking Department) when once the Government of India notes have been replaced by Reserve Bank notes. The desirability of eliminating rupee coin from the Issue Department is emphasised when its worth as a reserve asset is examined. From the point of view of the management of the currency by the Bank, the rupee coin is indistinguishable from the notes it issues, in spite of the fact that the rupee, appropriately described as a "note printed on silver," is made of a more costly material than the paper note. Both are tokens depending for their purchasing power upon the limitation of their issue, and both require to be secured by an adequate amount of gold and gold securities to assure their external value. The fact that some 85* crores of rupees have found their way into the Paper Currency Reserve is proof that, for the time being at any rate, they are redundant. Hence their unfitness as an asset to secure the stability of the purchasing power of the currency.

135. On the other hand we propose, for the reasons indicated in paragraph 69 above, to make it incumbent on the Bank to supply rupees freely to the public in such quantities as may be required for circulation, and we propose to lay on the Government

* See first footnote on page 6.

the duty of supplying rupees to the Bank in order to enable it to carry out this obligation. It is conceivable that a large rise in the price of silver might prevent the Government from discharging this duty, in which case the Bank would be freed from its obligation. But so long as the obligation prevails it is reasonable to permit the Bank to hold some of the rupees required to fulfil it in the Reserves of the Issue Department. The present stock is undoubtedly excessive, and we propose that a part of it should be retained by Government. The balance of (say) 67 crores will be made over to the Issue Department at the outset, and it is not unlikely that a considerable portion will be absorbed as a necessary addition to the currency in the first few years. If rupees are wanted for this purpose they will automatically flow out of the Issue Department, and will then be replaced by assets of a more desirable kind, such as commercial bills, or gold. If, on the other hand, they are not wanted, and do not flow out of the Issue Department, they are clearly undesirable as a reserve asset, and should therefore be got rid of deliberately and be replaced by assets of a more eligible character.

These considerations have led to a provision being included in these proposals to limit the quantity of rupee coin which the Bank is permitted to hold in its Issue Department to gradually diminishing amounts spread over 10 years.

136. Dealing with the question of the propriety of including Government of India securities among the reserves, it is easy to appreciate that they form a far less desirable asset than commercial bills, for they lack that most useful quality of the latter to expand and contract the currency automatically in accordance with the needs of the country. In the case of Government securities, expansion and contraction depends entirely upon the will and judgment of the currency authority, and is therefore more liable to errors of judgment. A large holding of Government securities, moreover, might give rise to difficulties in connection with their realisation if the need for it arose. Their inclusion among the reserve assets of the Issue Department can therefore only be justified if the amount held is limited to only so much of the circulation as is unlikely, in any circumstances, to be withdrawn, *plus* such further amount as can in all probability be realised without causing an undue disturbance of the Government's credit.

Even the conditional utility which attaches to ordinary securities is absent in the case of the "created" securities that now find a place in the Reserve. In respect of these, we recommend that the Government should be required to replace them by marketable securities gradually within a period of 10 years.

Separation of the Banking and Issue Departments.

137. We have stated above that the proportional reserve system does not necessitate the separation of the banking and

note issuing functions of a Reserve Bank. Wherever the system is in operation no such separation is in fact made. If, nevertheless, in the plan submitted in our Report such a separation is proposed, it is because we have been impressed by the view put forward by many witnesses that the accounts of the Reserve Bank should be presented in the simplest possible form, and that it is essential from this point of view to set out in a separate statement the assets and liabilities in respect of the note issue. We think that such a separation would inspire greater confidence in the new note. Although this is a novel way of dealing with the matter, there would seem to be no strong reason why it should not be adopted.

Government Guarantee of the Bank Note.

138. We recommend that the notes of the Bank shall be guaranteed by the Government of India. The purpose of this guarantee is to promote confidence in the notes of the Bank. A double change is proposed in the status of the note. It is to be a bank note instead of a Government note, and it is to be convertible into gold bars and not as of right into silver rupees as in the past. In order to obviate any discredit that might attach to the new note in consequence of these changes, it is in our opinion essential that the note should be guaranteed by the Government at least for the first period of the Bank's charter. We propose below a provision which will adequately secure the Government in respect of that guarantee.

Outlines of the Proposed Provisions of the Charter.

139. It will be convenient now to formulate, amplify and summarise the plan for the Reserve Bank which we recommend, in the form of outlined provisions for a charter.

Relations with the Government of India and the Secretary of State.

140. The provisions of the charter dealing with the relations of the Bank, the Government of India and the Secretary of State, should be framed to cover our general recommendations, as follows :—

The Bank undertakes to accept monies for account of the Government of India and the Secretary of State and to make payments up to the amount standing to the credit of their accounts, and to carry out all their exchange, remittance, investment and other banking operations, including the management of the Government of India Debt, on conditions to be mutually agreed upon.

The Government of India and the Secretary of State undertake to entrust the Bank with all their money, remittance, exchange and banking transactions in India, London and elsewhere, subject, in the case of London, to existing or future

arrangements with the Bank of England, and in particular to deposit, free of interest, all their cash balances and to concentrate all their money transactions at the Bank, its branches or agencies. The Government of India and the Secretary of State undertake, further, to entrust the Bank with any transactions they may desire to undertake in gold and securities, as also their ordinary transactions in silver, with the management of the Government of India Debt both in India and in London, and with the issue of any new loans, subject, however, to existing or future arrangements with the Bank of England in regard to the management of the Government of India Debt in London and the issue of new loans there.

Note issue.

141. The Bank shall have the sole right to issue bank notes in India for a period of (say) twenty-five years, provided that the Government of India may continue to issue notes as heretofore during such time as the Bank requires to put itself in a position to issue its own notes in substitution for the Government of India notes now in circulation. As soon as the Bank has notified the Government that it is in a position to issue notes, the Government shall cease to issue or re-issue its own notes, or any other type of paper money. Not later than five years from the date of the charter becoming operative the Government of India notes still outstanding shall cease to be legal tender except at Government treasuries.

Denomination of notes.

142. The denominations of the notes issued by the Bank shall be 1, 5, 10, 50, 100, 500, 1,000 and 10,000 rupees, or such other denominations as may be approved of by the Governor-General in Council.

Issue Department.

143. The issue of bank notes shall be conducted by the Bank in a department to be called "The Issue Department," which shall be separated and kept wholly distinct from the department in which its general banking business is carried on and which is to be called "The Banking Department." The assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as defined in the charter (*see* paragraph 146). It shall be lawful for the Central Board of Governors, if they think fit, to appoint a Committee, or Committees, of Governors for the conduct and management of the Issue Department, and from time to time to remove the members, and define, alter and regulate the constitution and powers of such Committee as they shall think fit. Provided nevertheless that the Issue Department shall always be kept separate and distinct from the Banking Department.

Transfer of reserves to the Issue Department.

144. There shall be transferred and appropriated by the Government of India to the Issue Department of the Bank the following assets, to be set forth in detail in a schedule to be attached, viz. :—

	Crores.
Rupee coin of a face value of	67
Rupee securities of a market value of ...	50
Gold securities of a market value of ...	88
Gold coin and bullion at par value ...	30
	235*

Thereupon there shall be delivered by the Issue Department to the Banking Department such an amount of bank notes as, together with the Government of India notes then in circulation, shall be equal to the aggregate amount of the rupee coin, rupee securities, gold securities and gold coin or bullion so appropriated to the Issue Department, less a sum equal to the amount of the rupee redemption liability referred to in the section (paragraph 146 below) dealing with the "Definition of liabilities of the Issue Department."

From and after such transfer and appropriation to the Issue Department, it shall not be lawful for the Issue Department of the Bank to issue its notes to the Banking Department except in exchange for other notes of the Bank, or Government of India notes, or for gold coin and bullion, or gold securities, or rupee coin, or Government of India securities, or such bankable bills of exchange as are permitted under the charter to form the security for the issue of the Bank's notes. Provided always that it shall be lawful for the Banking Department to pay out all Reserve Bank notes which it shall at any time receive from the Issue Department, or otherwise, in the same manner as such payment would be lawful if made by any other person.

Reserve requirements.

145. The character of the Reserves, which it shall be lawful for the Issue Department to hold as security for its liabilities, should be closely defined. Of its *holding of gold coin or bullion*, at least one-half shall be held in the Bank's custody in India, while the remaining half may be held outside India in the custody of its branches or agencies or deposited in other banks earmarked for the Bank's account. Gold in any Mint or in transit belonging to the Bank shall be counted as part of its reserves.

* These figures are as shown in Schedule III, based on the note circulation figures of 30th April, 1926, and are illustrative only.

The *gold securities* which it shall be lawful for the Issue Department to hold as part of its Reserves shall be securities the capital and interest of which shall be payable in a currency which is exchangeable into gold on demand and exportable in that form. They may be the following :—

(*a*) Balances standing to the credit of the Issue Department of the Bank at the Central Note Issuing Bank of a foreign country;

(*b*) Bills of Exchange of a maturity not exceeding 90 days bearing at least two good signatures drawn on and payable at a foreign money centre;

(*c*) Securities of Governments other than the Government of India.

Provided that for a period of 2 years from this charter becoming operative the Issue Department may hold Government of India sterling securities to an amount not exceeding Rs. 7 crores, and provided further that, after the lapse of 2 years at least one-half of the securities of Governments other than the Government of India shall be of a maturity not exceeding 5 years.

The Reserves to secure the liabilities of the Issue Department must consist of gold or gold securities to an amount of not less than 40 per cent. of these liabilities, provided that the holding of gold coin and bullion shall not be less than 20 per cent. of the liabilities after the end of the 5th year and 25 per cent. of the liabilities after the end of the 10th year from the date of the charter becoming effective. In no case, however, shall it be less than Rs. 30 crores. In order to enable the Issue Department of the Bank to show in its opening accounts a reserve ratio of not less than 50 per cent., that is to show a good margin above the minimum requirement, the Government of India should be required to replace any necessary amount (Rs. 7 crores, on the basis of the figures of note circulation on the 30th April last) of created rupee securities by gold securities. If the Government should find it inconvenient immediately to provide other suitable gold securities, they may be allowed to replace such rupee securities by an equivalent amount of Government of India sterling securities (created *ad hoc*), these to be replaced within 2 years by gold securities of the kinds specified above.

The balance shall be secured by the holding in the Issue Department of rupee coin, Government of India rupee securities and such domestic drafts, bills of exchange and bankers' acceptances as are eligible for purchase by the Bank under this charter, provided that the rupee coin held shall not exceed the amounts specified in the following table, or 10 per cent. of the liabilities of the Issue Department, whichever is the greater :—

Rs. 70 crores until the end of the third year,

Rs. 50 crores from the end of the third to the end of the sixth year,

Rs. 35 crores from the end of the sixth to the end of the tenth year,

Rs. 25 crores thereafter;

and provided further that the Government of India rupee securities held shall not exceed 25 per cent. of the liabilities with a maximum (overriding) of Rs. 50 crores.

At the outset, any excess in the combined assets of the Paper Currency and Gold Standard Reserves over the liabilities (as defined in the next succeeding clause) shall be retained by the Government in the form of silver bullion and coin. Schedule III to our Report shows, on the basis of the figures of 30th April. 1926, the assets and liabilities of the Issue Department.

Definition of liabilities of the Issue Department.

146. The liabilities of the Issue Department referred to in the preceding paragraph (Reserve Requirements) shall be an amount equal to the amount of Government of India and Bank notes in issue *plus* an initial amount of 50 crores in respect of "rupee redemption," which latter amount is to be reduced by one rupee for every five rupees delivered to the Government of India by virtue of the provisions in the next succeeding paragraph. The reverse procedure shall be followed when rupees are issued by the Government to the Bank, i.e. the rupee redemption liability will be increased by one rupee for every 5 rupees so issued.

Right to deliver redundant rupees to Government.

147. The Bank shall have the right to deliver to the Government of India against payment of four rupees in notes, gold or gold securities for every five rupees coin so delivered all the rupee coin of which it may become possessed in excess of the amount which, under the clause headed "Reserve Requirements" it is permitted to hold as part security for the liabilities of the Issue Department. Conversely the Bank shall be entitled to obtain rupees current under the Coinage Acts from the Government of India on payment of 4 rupees in notes, gold or gold securities for every 5 rupees so obtained.

148. The Government of India shall undertake not to re-issue any rupee coin delivered under this or the preceding clauses nor to coin and put into circulation any fresh rupees, except to the Bank and on the Bank's demand. The Bank, on the other hand, shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to Government as hereinbefore prescribed.

Notes to be legal tender and guaranteed by Government.

149. The notes of the Bank shall be legal tender for the payment of any amount, and shall be guaranteed by the Government of India. If and when the Bank fails to comply with the provisions of clauses 150-151 to buy and sell gold on the prescribed conditions, and the Government's guarantee thus becomes operative, or if and when it fails to comply with any other provision of the charter, which in the opinion of the Governor General in Council is essential, the assets held in the Issue Department shall become the property of the Government so far as they are required to meet the liability of the notes or of rupee redemption. Such failure shall involve the forfeiture of the privilege of note issue, unless it were caused by an impediment due to *force majeure* and recognised as such by the Governor-General in Council.

The Bank to sell gold.

150. The Bank shall sell to any person who makes a demand in that behalf at its offices at Bombay, Calcutta or Madras, during the office hours of the Bank, and pays the purchase price in any legal tender money, gold bullion for delivery at its Bombay office at the price* of Rs. 21 as. 3 ps. 10 per tola (180 grs.) of fine gold, but only in the form of bars containing approximately 400 ozs. (1,065 tolas) of fine gold. Provided that whenever the market rate for the selling price of telegraphic transfer on London is less than the upper gold point of the exchange as defined below, the Bank shall sell gold as aforesaid for delivery at its office at Bombay or in London at the option of the purchaser at prices hereinafter called the notified prices.

The upper gold point referred to above is equivalent to 1*s*. 6*d*. gold *plus* a proportionate amount to cover the cost of shipping gold bullion from London to Bombay, including packing, freight, insurance, and loss of interest, and shall be determined and published in the same manner as the notified prices. The notified price for delivery in London shall be the said price of Rs. 21 as. 3 ps. 10 per tola, with the addition of an amount corresponding to the expenses of the shipment of gold bullion from Bombay to the Bank of England, London, including packing, freight, insurance, and loss of interest. The notified price for delivery in Bombay shall be the said price *plus* an amount corresponding to twice the said expenses. The notified prices shall be calculated by the Bank from time to time as necessary. They shall be submitted to the Government of India, which shall satisfy itself that they have been calculated in the manner provided above, and certify the same. They shall be published with the certificate by notification in the Gazette of India, and the publication of the

* The figures in this paragraph are based upon our recommendation in section IV of the Report regarding the parity of the rupee.

notification and certificate shall be conclusive as between the Bank and all parties as to the prices at which the Bank shall sell gold.*

The Bank to buy gold.

151. The Bank shall be obliged to buy from any person who makes a demand in that behalf at its offices in Bombay, Calcutta, and Madras, during the office hours of the Bank, in exchange for any legal tender money, gold bullion for delivery at its Bombay office at the price of Rs. 21 as. 3 ps. 10 per tola of fine gold, but only in the form of bars containing approximately 400 ozs. (1,065 tolas) of fine gold; provided always that the Bank shall in all cases be entitled to require such gold bullion to be melted and assayed by persons approved by the Bank at the expense of the parties tendering such gold bullion.

The Bank to maintain the free interchangeability of the different forms of legal tender currency.

152. It shall be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency. It shall issue notes on demand in exchange for rupees and it shall, in exchange for notes of Rs. 5 or upwards, supply notes of lower value or rupees or other token coins in such quantities as may be required for circulation. It will be the duty of the Government to supply such silver rupees or other token coins to the Bank on demand. Should the Government at any time fail to discharge this duty the Bank will be released from its obligation to supply such coins to the public.

Suspension of Reserve requirements and tax on note issue.

153. The Bank shall be authorised and empowered, subject to the consent of the Governor-General in Council, to suspend for a period not exceeding 30 days, and from time to time to renew such suspension for periods not exceeding 15 days, the requirements as to gold and gold securities reserve specified in the charter; provided that, upon the amounts by which the reserve for the notes falls below the requirements of the charter in respect of such notes, a tax shall be paid to the Government equal to the Bank's discount rate in force at the particular period *plus* one per cent. per annum when the gold and gold securities reserve against the notes is less than 40 per cent. but more than 32½ per cent, and an additional 1½ per cent. per annum in respect of each 2½ per cent. decrease or part thereof by which the reserve falls below 32½. Provided that the tax shall in no event be less than 6 per cent.

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* As to the calculations concerned, *see* Schedule I.

Bank exempt from further note tax.

154. The Bank shall be exempted from the payment of any tax or duty upon its note issue, other than the graduated tax provided for in the last preceding paragraph.

Condition of note currency.

155. The form and material of the notes issued by the Bank shall be approved by the Governor-General in Council.

The Bank shall not re-issue notes which are torn or partially defaced or are soiled by excessive handling, and provision shall be made by the Bank for the disinfection and sterilization of notes before re-issue.

In order to express on the face of the new note the cardinal features, viz., the guarantee of Government and the fact that it is essentially a Bank note, we suggest that its form should be as follows :—

RESERVE BANK OF INDIA.

GUARANTEED BY

THE GOVERNMENT OF INDIA.

ONE HUNDRED RUPEES.

Reserve Bank of India notes are legal tender for the payment of any amount and are convertible into gold in accordance with the provisions of .... Act of.................

Issued by the Reserve Bank of India under the authority of the above Act.

....

Chief Cashier.

Audit.

156. The provisions of the Imperial Bank of India Act, 1920, Schedule II, regulations 58 to 60 inclusive, regarding the election of auditors, the right of the Governor-General in Council to appoint an auditor, and their rights and duties, seem appropriate and should be embodied in the new charter, with one modification, namely, that instead of three auditors, the new charter shall provide for not less than two auditors or firms of auditors.

Returns.

157.—(1) The Bank shall make up and transmit to the Governor-General in Council weekly an account of the Issue Department and of the Banking Department in the form set out in Schedule IV. The Government shall cause copies of these accounts to be published in the next succeeding issue of the Gazette of India.

(2) The Bank shall also, within two months from the close of each half of the financial year, transmit to the Governor-General in Council a copy of its half-yearly accounts, signed by the Managing Governor, Deputy Managing Governor, and the Chief Accountant of the Bank, and certified by the auditors, and the Government shall cause such copies to be published in the Gazette of India.

(3) The Bank shall also, within 60 days after the 31st December in each year, transmit to the Governor-General in Council a list giving the names, addresses and occupations and the number of shares held by each shareholder of the Bank.

Bank rate.

158. The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange, or other commercial paper eligible for purchase under the charter.

Secrecy as to the business of the Bank.

159. The Governors, officers and employees of the Bank shall be obliged to maintain secrecy in regard to the affairs of the Bank and its customers, and any person contravening this provision shall be liable to a heavy pecuniary fine or imprisonment, or both.

Falsification of books, statements, etc.

160. Any Managing Governor, Deputy Managing Governor, Governor, officer, or employee of the Bank—

(*a*) who falsifies any account, statement, return or other document respecting the affairs of the Bank, with intent to defraud or in a manner calculated to deceive shall be guilty of an offence and liable on conviction to imprisonment or to a fine, or to both.

(*b*) who negligently and in breach of his duty makes, prepares, signs, approves or concurs in any account, statement, return or other document respecting the affairs of the Bank containing any false or deceptive statement, shall be guilty of an offence, and liable on conviction to imprisonment, or to a fine.

Cash Reserves to be maintained by banks and bankers against deposits.

161. It seems highly desirable that the Bank Act should also include provisions compelling every bank or banker transacting business in India, from a date to be notified by the Governor-General, to establish and maintain minimum reserve balances with the Reserve Bank equal to 10 per cent. of its or his demand liabilities to the public in India, and 3 per cent. of its or his time liabilities to the public in India. It should be made obligatory upon every bank or banker transacting business in India to make a return at the end of each month, signed by the Chief Officer and Chief Accountant, or, in the case of a private firm, a Partner and the Chief Accountant of the firm, and to send such return to the prescribed officer of the Government and to the Bank, showing :—

(*a*) The amount of the demand and time liabilities respectively to the public in India;

(*b*) The amount of Government of India and Bank notes respectively held in India;

(*c*) The amount of rupee coin and subsidiary coin respectively held in India;

(*d*) The total amount of advances and discounts respectively in India; and

(*e*) The reserve balances held at the Reserve Bank.

Failure to comply with this provision should be subject to a penalty recoverable by action in a competent court. A summary of such monthly return for each bank or banker should be published in the Gazette of India.

When it appears from any monthly return that any bank or banker has failed to maintain the required reserve balances it shall be competent for the Government of India to call for such further return, or make such inspection of the books and accounts of the bank in default as may be necessary to ascertain the amount of the deficiency and period during which it continued. The bank so in default shall incur a penalty at a rate per annum which shall be 3 per cent. above the Reserve Bank's official discount rate on the amount of the deficiency for each day that it continued. The penalty shall be raised to 5 per cent. above the Reserve Bank's official discount rate after the first seven days of the deficiency. No bank or banker may at any time make new loans or pay dividends unless and until the reserve balance required under this section is restored.

Interpretation of term "Bank or Banker."

162. We suggest that the term "bank or banker" should be interpreted as meaning every person, firm, or company, using in its description or title "bank" or "banker" or "banking,"

and every company accepting deposits of money subject to withdrawal by cheque, draft, or order. We recognise, however, that in view of the special conditions of indigenous banking in India, this matter will require more detailed consideration than we have been able to give to it, and we recommend that it be further examined.

Functions and capacities of the Bank.

163. The functions and capacities of the Reserve Bank shall be as defined in Schedule II.

Regulations.

164. A provision should also be inserted in the charter giving the Governor-General power to make, from time to time, regulations, not inconsistent with the charter, prescribing all matters which are required or permitted to be prescribed, or which are necessary or convenient to be prescribed, for giving effect to the provisions of the charter.

Time Table.

165. The above proposals cannot, of course, all be brought into operation at once. The existing agreement with the Imperial Bank of India, for instance, is not due to expire until the 27th January, 1931, and the contract with the Bank of England for the supply of Government notes is not due to expire until the 30th June, 1929. The earlier termination of either agreement could no doubt be negotiated. On the assumption that the necessary arrangements are made, we recommend the following time table for the chief changes :—

> The transfer of assets referred to in paragraph 144 should be made as soon as the Reserve Bank notifies that it is in a position to issue its own notes, but not later than 1st January, 1929.
>
> The obligation to buy and sell gold should come into operation on a date to be approved by the Governor-General in Council on the proposal of the Bank, but not later than the 1st January, 1931.

Transitory Provisions.

166. During the transition period the currency authority* must be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the accepted gold parity of the rupee. It should take whatever steps are required to convert in the safest and most gradual

*** By currency authority is meant the Government of India or the Reserve Bank of India, whichever is in control of the note issue.**

manner a portion of the sterling balances into gold bullion, and should pursue a policy calculated to strengthen the position of the Bank in relation to gold when it assumes charge of the currency and the Reserve.

We desire expressly to emphasise that this recommendation as to the transition period is of the essence of our proposals. The Government of India should at once publicly announce its acceptance of the obligation as defined, and should fulfil it without variation during the period of transition. We are of opinion that this obligation should be embodied in statutory form. In Schedule V we suggest an outline form for such statute.

Interdependence of Recommendations.

167. In conclusion, we desire to emphasise that our recommendations in the preceding sections of this Report should be regarded as a comprehensive whole and that modifications of any of their integral parts involve the danger of destroying their balance and so preventing the efficient and smooth working of the whole.

IV.—STABILISATION OF THE RUPEE.

Time for Stabilisation.

168. The system of currency which we have recommended implies the adoption of some fixed gold parity for the rupee, and the stabilisation of the rupee at that parity. It is therefore essential to our inquiry to consider whether the time is ripe for such a stabilisation of the rupee, and, if so, at what rate that stabilisation should be effected.

169. The great preponderance of opinion in the evidence which we have received is that it is desirable that the gold parity of the rupee should be fixed and that the rupee should be stabilised at that parity forthwith. It is held that the rupee should not be left to discretionary variations, with a view to the mitigation of internal price movements or for any other purpose; and it is argued that, in view of the circumstances of the times, including the return to a gold basis of the United Kingdom, the Dominions, and other countries, the time is now fully ripe for such stabilisation. Each addition to the list of countries which have stabilised their currency in relation to gold improves the prospects for the stability of gold prices.

170. In this opinion we concur. So long as no such parity is fixed, there must be uncertainty as to the future of exchange, and a consequent lack of confidence. Commercial initiative must be discouraged, and the machinery of commerce generally must be clogged and hampered. There are therefore the

strongest practical reasons for deciding upon the parity and stabilising thereat forthwith, if that can be done with safety.

171. After considering all foreseeable circumstances, we have come to the conclusion that it is safer to stabilise now than to wait. We do not overlook the fact that a certain element of instability remains in the economic conditions of the world as long as some important countries have not attained budgetary equilibrium or a stable currency. To fear, however, that even the worst disturbances that could proceed from these sources could seriously imperil the stability of Indian exchange would appear to us to imply an exaggerated caution. A stable exchange is an inestimable boon, and it should not be sacrificed or postponed for the sake of a security that is so absolute as to be unobtainable in the practical world.

172. An apprehension was expressed to us lest some considerable change in the credit policy of the United States of America, at present the chief holder of the world's monetary stock of gold, might produce a rise in world gold prices, in which India, if definitely linked to a gold standard, would be inevitably involved. As already stated on the authority of the evidence from the United States, we have satisfied ourselves that there is no such redundance of gold in the United States as would be likely to promote such a policy. Moreover, the number of countries which have returned or are returning to the gold standard is some guarantee that, with proper co-operation and management on the part of the various central banks of the world, a more even distribution of the available gold will be attained in time, so that world price levels will be less dependent upon the policy and actions of a single currency authority than they are supposed to be at present.

173. In short, there is not in our opinion any event in the foreseeable future which would be likely to make conditions more favourable for the purpose of stabilisation than they are at present, and the outcome of which ought therefore to be awaited: and we are, in consequence, of opinion that stabilisation should be effected forthwith.

The Ratio of Stabilisation.

174. The legislation of 1920 has fixed the statutory value of the rupee at 2*s.*; but that rate is absolutely ineffective, and the Government have declared that they do not seek to regain it. The present market rate is about 1*s.* 6*d.* It has been at that level in relation to gold since June 1925, and in relation to sterling since October 1924.

175. For the reasons set forth below we recommend that the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1*s*. 6*d*. for the rupee.*

Adjustment of Indian to world prices.

176. The chief reason for this recommendation is our conviction, which has been formed and cumulatively reinforced during the progress of our inquiry, that, at the present exchange rate of about 1*s*. 6*d*., prices in India have already attained a substantial measure of adjustment with those in the world at large, and, as a corollary, that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid, and which would in the end be followed by no countervailing advantage.

177. We shall proceed to discuss a number of relevant issues, which have been raised in this connection, and we shall examine the question from various angles; but we wish to make it clear at the outset that the central, and as it seems to us the decisive, factor is the extent to which the prevailing rate of exchange is reflected in internal prices. We are unanimous in holding the view—and, indeed, it is a proposition which it would be difficult to controvert—that, *if* it can be shown that prices have to a preponderant degree adjusted themselves to the existing *de facto* rate, then that rate must be adhered to. The further proposition, that such substantial adjustment has been secured, is a question of fact, as to which we shall now adduce the evidence on which our conviction is based.

178. It would be difficult, if not impossible, to pursue any argument on the subject of the movement of price levels, without making use of index figures in some form. We recognise that index figures are not an infallible guide, and that there are many directions in which they might lead one astray. Especial caution is necessary in using them for the purpose of comparing the range of price levels in two or more countries over a particular period, because the figures are necessarily compiled in different ways in different countries. Moreover, it is usual, for purposes of comparison, to refer them to the same basic year, and the year selected may not be equally suitable in all the cases concerned. For example, there may have been some local peculiarity in the circumstances of the basic year, or the character of production may have changed during the period in one or more of the countries. It may be said that

* Throughout this part, when such expressions as "the 1*s*. 6*d*. rate," "a 1*s*. 6*d*. rupee," are used, they must be read with reference to our recommendation that the rupee should be definitely linked to gold. The expressions in question are used merely as a convenient and familiar way of referring to the gold value of the rupee.

the index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries.

It might have been expected that the statistical employment of the doctrine of purchasing power parity would have facilitated the task of determining the proper exchange ratio to be fixed. But quite apart from the imperfections of the Indian figures of prices, the employment of index numbers for such a purpose implies the important assumption that changes in the prices of goods entering international trade have been followed by similar changes in the prices of all other goods. A caveat has to be entered against the application of the theory of purchasing power parity to general price level as determined by figures like index numbers of wholesale prices or index numbers of retail prices and cost of living. The theory can in fact supply a very approximate guidance only, and its practical utility is of a strictly limited character. Moreover, in comparing the pre-war and post-war price levels for the purposes of the theory, we have to allow for changes in tariffs and freights both at home and abroad and changes in the character of production, and these have been very important.

179. In India there are special difficulties in the way of compiling a representative index figure owing on the one hand to the great size of the country and the cost of inland transport, and on the other to defects in the statistics on which the compilation is based, defects which have been pointed out in the report of the recent Indian Economic Enquiry Committee.

180. We desire to take this opportunity of recommending that a serious and sustained attempt should be made to remedy these defects, and to lay the basis of sound economic deductions by the collection of accurate statistics, not only of prices, but also of wages, a subject which in India presents even greater difficulties.

181. Bearing the above reservations in mind we proceed to examine the data available. We draw no conclusions from the general index numbers for all India, because these are more deeply affected by the defects indicated above than are the local indices of wholesale prices compiled at Calcutta and Bombay. Of the latter the Government of India prefer the Calcutta figures. They are more comprehensive, covering 71 items against Bombay 42. We shall deal with them first, but in the graphs referred to later we have combined the two sets of figures into one.

182. From December, 1922, to June, 1924, the gold exchange value of the rupee (as measured by the cross-rate, Calcutta-London-New York) remained fairly stable round 1*s.* 3*d.* gold (the limits being about 1*s.* 2¾*d.* and 1*s.* 3½*d.*). During the same period the rupee price level, as measured by the Cal-

cutta* wholesale index figure, remained fairly steady round 176 (the limits being 170 and 181). From July 1924 to January 1925 the rupee rose sharply to the neighbourhood of 1*s*. 6*d*. gold, and since the end of May 1925 it has been held within the 1*s*. 6*d*. gold points. From July 1924 to June 1925 the rupee price level fell from 179 to 157, and has since then† varied between the limits of 163 and 153.

183. Thus, treating the statistics in the most generalised way and disregarding minor movements, it is observable that :—

(i) During eighteen months, while the rupee was worth about 1*s*. 3*d*. gold, the rupee price level ranged round a mean of about 176.

(ii) In the succeeding year, while the rupee was rising to 1*s*. 6*d*. gold, the rupee price level fell below 160.

(iii) Since then, while the rupee has remained, or been held, at about 1*s*. 6*d*. gold, the rupee price level has ranged round a mean of about 158, with a recent tendency to fall in sympathy with world prices.

The level of world gold prices, as indicated by the wholesale price index figures of the United States and the United Kingdom, was (in spite of intermediate fluctuations) approximately the same at the beginning of period (i) and at the end of period (iii).

It is natural to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial equilibrium was attained about the middle of 1925 and has been since maintained.

184. The nature and extent of the tendency towards adjustment may perhaps be more readily apprehended by means of a graphic representation. In the attached diagrams, in which an attempt has been made to exemplify general tendencies and minimise the effect of local variations, attention is directed to the comparative slopes and movements and not to the actual levels of the respective lines. The latter, as already pointed out, may be influenced by factors (e.g. the base year chosen for the compilation of index numbers) which are largely irrelevant for the present purpose, whereas the general trend of movement would remain the same whatever basis were chosen for the figures.

185. In Figure 1 are shown two lines representing respectively the course of prices in India converted into gold prices on the basis of the current market rates of exchange, and the course of world prices in terms of gold. In the case of India the average between the Calcutta and Bombay figures of wholesale

* The trend of the Bombay index figure is similar.

† The statistics quoted in this and the following paragraphs are carried down to March 1926, the latest month in respect of which complete data are, at the time of writing, available.

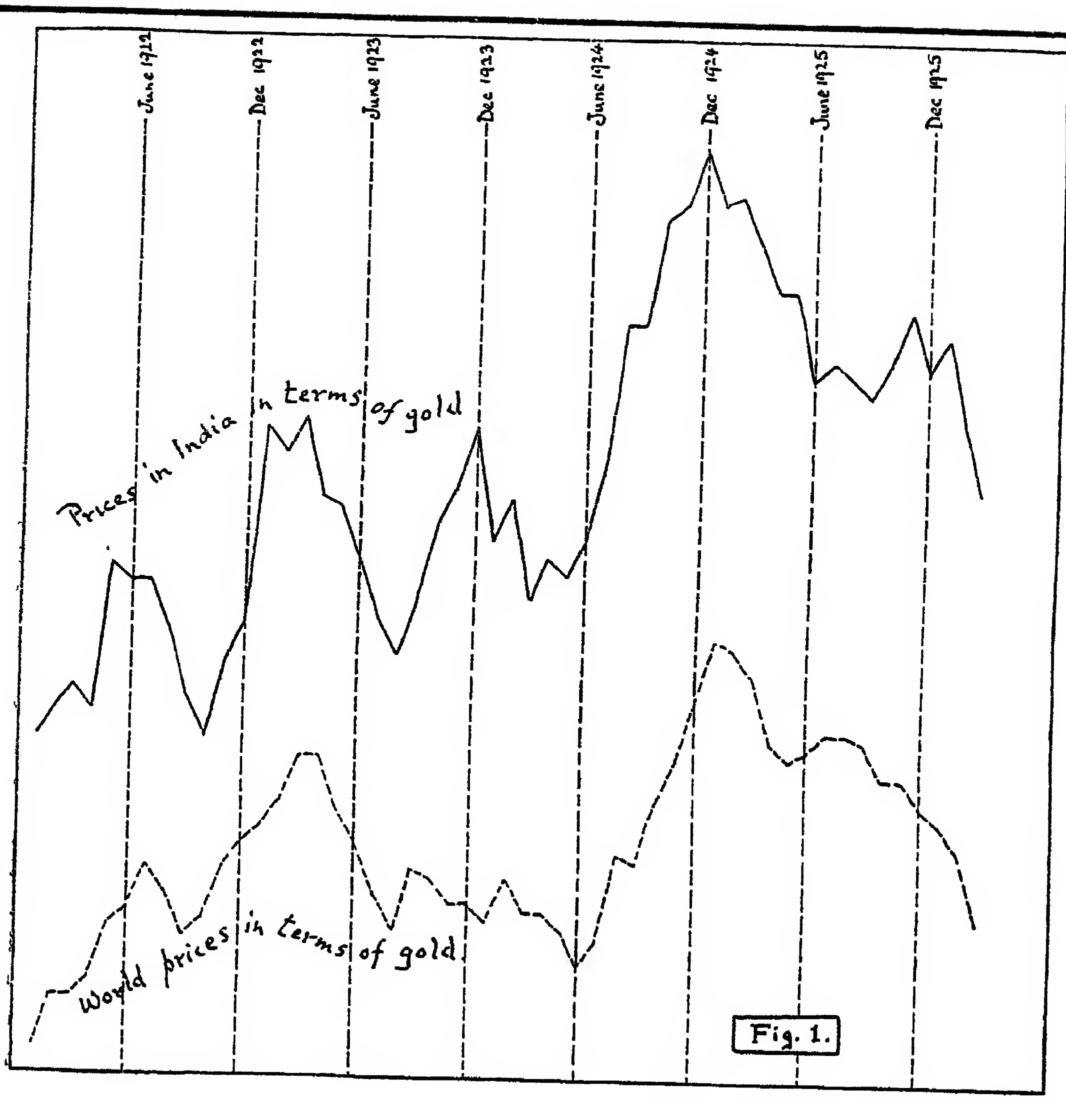

Fig. 1.

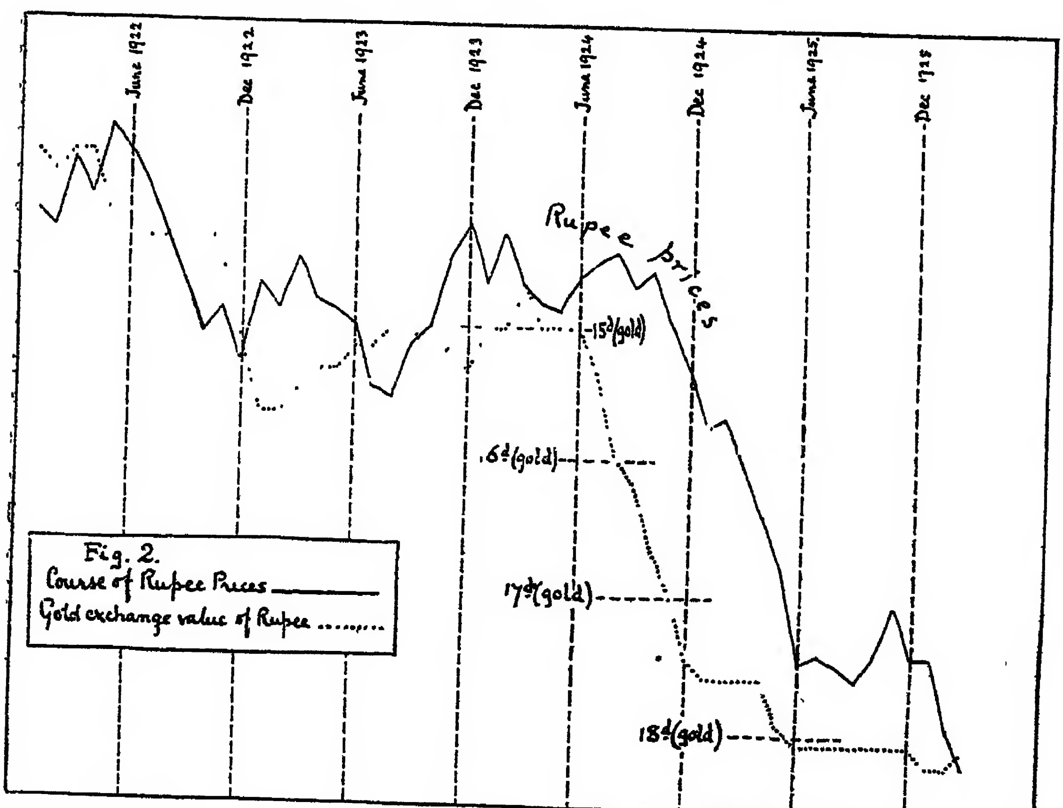

Fig. 2.

In figure 2, to facilitate comparison between the slopes of the two curves, the graph of the exchange value is inverted; *i.e.*, an upward slope represents a fall in exchange, and a downward slope a rise in exchange.

prices has been used, while the figure for world prices has been obtained by averaging the wholesale index numbers of the United States (Bureau of Labour) and the United Kingdom (Board of Trade) after correcting the latter for any variation of sterling from gold parity. In Figure 2 is shown the course of Indian prices in terms of rupees, i.e., actual prices in Calcutta and Bombay; together with this is plotted, for purposes of easy reference, the course of the gold exchange value of the rupee.

186. It will be seen that in 1923 and the first half of 1924, when the exchange was fairly steady at about 1*s.* 3*d.* gold, movements of world prices and of Indian rupee prices roughly corresponded, but from October 1924 to September 1925 there was a rapid and violent downward movement of the rupee price level which was not the reflection of any similar movement in world prices. The line representing Indian prices *in terms of gold,* however, continued to follow approximately the same trend as world prices, thus indicating that the fall of rupee prices was due to the adjustment of these prices to a new level of exchange.

187. An inspection of the diagrams suggests some interesting inferences as to the nature, pace and extent of the inter-adjustments between prices and exchange during the period (from the middle of 1924 to the middle of 1925) when the rupee was rising from 15*d.* gold to 18*d.* gold. Although it was not until the end of that period that 18*d.* gold was definitely attained, it has to be remembered that the greater part of the rise took place in the first half of the period, i.e., during the last six months of 1924. During that half-year the rupee rose approximately from 15*d.* gold to 17·6*d.* gold. World prices rose sharply from July 1924 to February 1925 and then receded gradually; by June 1925 they had come back to the level at which they stood in November 1924. Rupee prices remained nearly stationary from July to October 1924, and then, as pointed out above, a rapid fall set in. The only reasonable explanation of these divergencies between the course of rupee prices and that of world prices is the concurrent rise in exchange. The effect on rupee prices of this rise in exchange was not fully apparent at the outset, owing no doubt to the usual lag in such adjustments; it was sufficient immediately to check the rise in rupee prices, but it took a few months to overcome the inertia of those prices and produce a decided fall. When once the fall had set in it continued with practically equal rapidity throughout the first six months of 1925, although, as already observed, exchange at this period was rising at a much less rapid rate: in fact it only rose during these six months from 17·6*d.* gold to 18*d.* gold. The lag due to economic friction was then exerting its influence in the opposite direction, that is, it was tending to keep prices falling at the same pace although the impetus which started the fall had lost

much of its force. The conclusion seems almost irresistible that the marked fall in rupee prices in the first half of 1925 represented largely the tendency of those prices to adjust themselves to the rise in exchange, the greater part of which had occurred in the preceding half-year. This conclusion is strikingly illustrated by the parallel course of the lines in Figure 2 and is borne out by the course of prices in recent months, when with a steady exchange both rupee and world prices have been falling, practically in unison. The final curves in the diagrams suggest that the adjustment of internal prices in India to the 1*s*. 6*d*. rate of exchange is practically complete and that the trend of rupee prices has again begun to correspond with that of world gold prices.

188. This analysis appears to provide a conclusive answer to the main contention of those who doubt whether any substantial adjustment has yet taken place. That contention may be broadly stated as follows : "It was not till June 1925, that the rupee attained 18*d*. gold. Since that date rupee prices have been practically stable in relation to world prices. Therefore adjustment has not taken place and is still to come." The answer is that although the rupee did not definitely reach 18*d*. gold till June 1925, it had between July 1924 and January 1925 already traversed more than 80 per cent. of its upward journey from 15*d*. to 18*d*. gold; and that before June 1925 there had already taken place a heavy fall in rupee prices in relation to world prices, which may be regarded as the complement of the steep rise in exchange.

189. A further indication of equilibrium between internal and external prices during the last twelve months is to be found in the steadiness of exchange. Exchange is the mechanism by which differences in these two price levels are adjusted, and by which they are, as it were, kept in gear. When exchange remains steady over a fairly long period it may ordinarily be inferred that there are no differences to be adjusted. It has been urged against this view that exchange has only been kept at 1*s*. 6*d*. by Government manipulation, but in fact the so-called manipulation has been confined to an addition of 9 crores to the note circulation during the recent busy season and a withdrawal of 8 crores at the end of it. Such an amount of expansion and contraction is by no means excessive and is contemplated in the Indian Paper Currency Act as a normal seasonal variation. The fact that advantage has not been taken of the offer made by the Government in April last to sell sterling at 1*s*. 5¾*d*. goes to show that the present volume of currency is adjusted to the 1*s*. 6*d*. ratio.

190. It is relevant also to consider the course of India's foreign trade, which would naturally be affected by any disequilibrium between internal and external prices. If the rupee

were either under-valued or over-valued internally in comparison with the external value, either exports or imports would be subjected to a handicap which we should expect to see reflected in adverse conditions in the general trade of the country. As a matter of fact, while there are individual trades which are passing through a period of adversity, the general trade of the country, taken as a whole, shows no signs of the imposition of such a handicap.

191. All the above considerations point to the same conclusion, viz., that after twelve months of the 1*s*. 6*d*. rate of exchange, substantial adjustment of prices has been attained; and this conclusion is borne out by the experience of other countries which have recently stabilised their exchanges.

Wages.

192. We turn now to the question whether wages in India are in adjustment with the present level of prices and exchange. The material available is even less extensive and reliable than that relating to prices. But it may be inferred on general grounds that considerable progress has already been made in the process of adjustment. Prices are bound to react on wages sooner or later all the world over, and, although the effect may take longer to manifest itself in India than in countries where industry is more highly organised, the economic tendency none the less exerts its force in the same direction. In India a much larger percentage of wages is spent on foodstuffs than in western countries, and therefore there is a very necessary ultimate adjustment of wages to the price of food grains. This has been obscured for the time by the abrupt and belated rise of wages which the last decade has seen—a rise which was to some extent accelerated by factors not purely economic.

Where exchange and prices have been steady over a considerable period, we should feel justified in assuming that wages were in adjustment unless there were any clear indications to the contrary. The statistics of foreign trade afford no such contrary indication, but rather strengthen the assumption. Agriculture, which is pre-eminently India's greatest industry, has suffered from the world-wide effect of the war, which has been to leave the prices of agricultural produce at a lower level in relation to manufactured articles. This effect is illustrated by the marked difference between the average rise since 1914 in the prices of the articles that India exports, which are mostly agricultural, and the rise in the prices of imported articles, which are mostly manufactured. The rise has been considerably greater in the latter case than in the former, and this undoubtedly constitutes an economic loss to India. But it is a loss which she shares with all other agricultural countries and which cannot be made good by any

monetary policy. In spite of this disadvantage such figures as are available (e.g., the index numbers of agricultural wages in rural areas compiled by the Labour Office, Bombay) indicate a general tendency to improvement in the wages of the labourer, and this tendency may be expected to facilitate adjustment to falling prices, which indeed operate as a check to the rising tide of wages. A similar phenomenon has been observed in the case of Government services, where the increase in the value of the rupee to 1*s*. 6*d*. has enabled Government to refuse increases of pay which it might otherwise have been difficult to resist.

193. On the whole we see no reason to believe that there is any general maladjustment in agricultural wages. Neither have we been able to discover any such condition in the wages paid by manufacturing industries generally. The Jute mill industry of Bengal granted temporary increases of pay to its employés in the years when prices were abnormally high, but as a result of the adjustments which have taken place the wages now paid in that industry are in line with to-day's price levels and cost of living. We found certain other important industries in a state of depression, notably the steel and cotton mill industries. The steel industry is suffering, not so much from high wages, as from the stress of foreign competition, stimulated in some countries, e.g. Belgium, by depreciating exchanges. With regard to steel and other industries, it appears to us that relief, if relief is really required, cannot properly be obtained by manipulation of the currency. The cotton mill industry of the Bombay Presidency has furnished us with detailed figures illustrating its difficulties. The chairman of the Bombay Millowners' Association told us that the present index figure of wages of mill-hands is 231 (as compared with 100 in 1914), and that attempts to reduce wages have been frustrated by strikes. This, too, in spite of the fact that the Bombay index numbers of wholesale prices, retail food prices, and cost of living are only 150, 150, and 153 respectively. These figures indicate that either the pre-war rate of wage was too low or the present rate is excessive. The reduction of the exchange rate to 1*s*. 4*d*., which the chairman of the Association and many other witnesses advocated, would at best provide a temporary alleviation only for so serious a maladjustment. The ultimate effect would merely be, by inflating the currency to the extent of 12½ per cent., to produce a concealed reduction in wages of an equivalent percentage. Even if this would secure the desired equilibrium, which seems highly improbable, we do not regard it as sound policy to use the currency as a lever to reduce real wages. Any adjustment of wages thus brought about would be arbitrary in extent as well as temporary in character. Inflation is a dangerous expedient, which has often been advocated, and sometimes deliberately applied, in

other countries for similar purposes, but it has always been found to carry nothing but evils in its train. The prosperity of an industry depends on the soundness of its internal economy and its adaptability to changing conditions; and any basic unsoundness in its economic conditions cannot be rectified by a mere change in the ratio of exchange.

Effect on contracts.

194. In addition to prices and wages it is relevant to consider how outstanding contracts will be affected by the rate at which it is proposed to stabilise exchange. It has been represented to us that land revenue and other long term contracts were settled when exchange was at 1*s*. 4*d*. It is true that many of the current land revenue settlements were made during that period because generally speaking the normal term of these settlements is 30 years; but in view of the great rise in prices since 1914 the real incidence of land revenue, measured in terms of commodities, has been very materially lightened, and we cannot regard a 1*s*. 6*d*. rate as constituting a hardship in this respect.

195. With regard to other long term contracts, it must be remembered that the Indian exchange has been in a more or less unstable condition for the last 8 or 9 years. If regard is had to the gold exchange value of the rupee (computed, during the period of sterling depreciation, by a combination of the rupee-sterling and dollar-sterling exchanges) it will be seen that the rate broke away from 1*s*. 4*d*. gold in an upward direction in 1917 and continued to rise until February 1920, when it touched 2*s*. gold. It then fell away very rapidly to 11½*d*. gold in August 1921, and from that time rose until, in June 1925, it reached 1*s*. 6*d*. gold. It has since remained at about that figure. During the whole of this period of 8½ years the rate has been at or about 1*s*. 4*d*. for short periods only, and has certainly never remained long enough at that figure for conditions to have been able to be readjusted on the basis of the old rate. It cannot be contended that contracts and arrangements concluded prior to 1918, and still existent, bulk more largely in the economic life of the country than those concluded during the subsequent 8½ years, during which period the exchange has been in a state of flux.

196. After the prolonged disturbances which have taken place, it is impossible to do absolute justice to the long-term debtor and creditor by fixing on any particular rate of exchange. In any case these long-term debts form only a small part of the total contracts outstanding. The great bulk of the contractual obligations incurred under modern conditions consists of short-term contracts, and so far as these short-term contracts are concerned, it is reasonable to suppose that they originated, for the most part, when conditions were based on the 1*s*. 6*d*. rate, or in any event after exchange had broken away from 1*s*. 4*d*.

We conclude therefore that from the point of view of contracts, as well as from that of prices and wages, the least disturbance will be caused, and the least injury will be done to all the interests concerned, by adhering to the *de facto* rate.

Arguments for reversion to 1s. 4d.

197. The only other rate which has been seriously advocated by many of our witnesses is 1*s*. 4*d*. This has been described to us as the "natural" rate for the rupee, but we have not been able to ascertain exactly what is meant by that term. Fluctuations in exchange are produced by the mutual interaction of internal and external prices, and as the level of internal prices is determined mainly by the volume of internal currency, the only rate which can properly be regarded as natural is the figure at which these prices are in adjustment with the existing volume of currency and are also in equilibrium with external prices. From this point of view 1*s*. 6*d*. appears to be clearly the "natural" rate under present conditions. The term, however, appears to be loosely used to denote the rate which would result if no attempt were made either by statutory enactment or executive action to anchor the rupee at a particular point. If such a policy were adopted, there can be no doubt that in a country like India where there are wide seasonal fluctuations of trade there would be similarly extensive fluctuations in the rate of exchange amidst which it would be impossible to distinguish any particular rate as "natural."

198. In this connection we have received criticisms of the action of Government in intervening in April 1926 to prevent a fall of exchange below 1*s*. 5$\frac{3}{4}$*d*., though no exception has been taken to the earlier action of the Government, in October 1925 in intervening to prevent a rise in exchange above 1*s*. 6$\frac{3}{16}$*d*. As a matter of fact if either of these tendencies was a natural one (i.e., the genuine reflection of trade conditions) it was the earlier tendency to rise above the 1*s*. 6*d*. upper gold point. That is evidenced by the fact that the rate was only kept down by large purchases of sterling and the accompanying expansion of the currency, whereas on the later occasion it has been authoritatively stated that the falling tendency was due not to any genuine trade factors but largely to speculation on the possibility of a lower rate than 1*s*. 6*d*. being recommended in our report. This statement is to some extent confirmed by the fact that the mere offer of reverse remittance at the 1*s*. 6*d*. lower gold point, coupled with a contraction of the currency by an amount nearly equivalent to that which was let out at the beginning of the busy season, was sufficient to check the fall, and no reverse councils were actually applied for.

199. One of the arguments frequently urged against the retention of the 1*s*. 6*d*. rate may be analysed as follows. Granted

that the *de facto* rate has been in operation for a considerable time and that prices and other conditions may have become adjusted to it, nevertheless it is urged that the rate came into being through Government manipulation of the currency, and it is suggested that a rate so established can be disturbed with less harmful results than would follow from the disturbance of a rate which has been produced by the interplay of purely commercial forces. This argument has only to be thus clearly stated to be seen to be fallacious. If it were true that the Government of India, as currency authority, were in error in pursuing a policy which resulted in the holding of the rupee at 1*s*. 6*d*., it would be justifiable to criticise such error, but it would still remain true that, in choosing a rate for the final stabilisation of the rupee, it is the facts of the present that must be faced. When prices and other conditions are in adjustment with those in the world at large on the basis of an existent exchange rate, the question of the means by which that rate came into existence has no bearing on the extent or violence of the economic disturbances which would result from an alteration in the rate.

200. It has been suggested in favour of the 1*s*. 4*d*. rate that it would reduce the total demand for gold in connection with the introduction of a gold standard; and, further, that we have to envisage the possibility of a failure of the monsoon requiring the utilisation of the gold and sterling reserves of Government to support exchange, and that the rate of 1*s*. 4*d*. would be easier to maintain than 1*s*. 6*d*. The first contention overlooks the fact that a reduction in the gold value of the monetary unit by 12½ per cent. involves of necessity an increase of the circulation by a similar percentage. The amount of gold in reserve required to support the circulation would therefore be the same in either case. As regards the second suggestion, provided that the gold and gold securities reserves are sufficient to prevent their exhaustion before the necessary contraction of the rupee circulation has been brought about, we see no ground for thinking that, with the establishment of a central currency and banking authority, with full power to make its credit policy effective, it will be more difficult to maintain exchange at 1*s*. 6*d*. than at 1*s*. 4*d*. The proviso is satisfied by the constitution of reserves recommended elsewhere.

201. When once exchange has been stabilised and prices and other conditions are fully adjusted to the rate chosen, it is of course true that the testing time for the mechanism that maintains the exchange will come if and when there is a succession of bad monsoons. But that testing time will come equally whether the rate of stabilisation be 1*s*. 6*d*. or 1*s*. 4*d*. or any other rate; and the ability to meet it will depend, not on the

figure at which exchange is fixed, but, as indicated above, on the maintenance, and proper utilisation, of adequate gold reserves.

202. It has been suggested that competition from foreign countries with depreciated or depreciating currencies, such as France and Belgium, could be met by lowering the Indian exchange to 1*s.* 4*d.* When once these currencies have been stabilised, the adoption by India of a ratio of 1*s.* 4*d.* rather than 1*s.* 6*d.* would not leave her in any better position to meet such competition. During the transition period, when the foreign currencies are unstable, the remedy, if any, must rather be sought elsewhere than in the manipulation of her currency policy. If it should happen that any of the other countries concerned avoid stabilisation, and allow their currencies to depreciate continuously, it will scarcely be suggested that India should enter on a course of competitive inflation in order to keep pace with them.

203. The rate of 1*s.* 4*d.* has also been supported on the ground that the recent abnormal absorption of gold by India has been due to the cheapness of gold brought about by the rise in exchange, and that there will be a wholesome check to this absorption if the rupee price of gold is raised by lowering the gold value of the monetary unit. It was stated in evidence before us, by a leading bullion broker, that whatever the rate of exchange, India must buy, has bought, and will continue to buy gold; and that she can never be saturated with gold, and will only stop buying it when her production falls off through famine or other causes. It is true that gold has in recent times been relatively cheap compared with other commodities, but it is evident that, since a change in the gold value of the rupee must involve a corresponding change in the rupee prices of commodities, the mere lowering of the ratio of the rupee cannot result in more than a temporary alteration in the relative cheapness of gold and general commodities. The suggestion that India's appetite for gold can be cured by a lowering of the exchange is indeed based on an imperfect apprehension of her economic circumstances. The only sure way to eradicate this wasteful habit is to stabilise the currency, establish confidence in its stability, educate people in the habit of investment, and extend banking facilities.

204. Another argument advanced in support of a reversion to the pre-war rate is that there is likely to be a fall of world gold prices in the near future, and that the fixation of exchange at 1*s.* 6*d.* will accentuate the fall in India, and make it specially embarrassing, as was the rapid fall which took place in 1920, when the ill-fated attempt to stabilise Indian exchange at 2*s.* was made. The economic conditions of to-day are very different from those prevailing in 1920. The fall in prices that occurred

in that year was quite abnormal both in rapidity and in extent. It was an aftermath of a world-wide upheaval, a reaction from the enormous expansion of credit that took place during the war. It would be imprudent to base a currency policy on the supposition that such conditions are likely to recur, because a second upheaval of the kind would overwhelm almost all currency systems in a common ruin. If we aim at stability we must assume that the period of catastrophic disturbance is over and that future movements of prices will proceed on more normal lines. If the world's gold production in the future should fail to keep pace with the demand, a period of falling prices would probably set in, but, judging from past experience, the price movement due to such a cause would be slow and gradual, and should not prove a menace to the stability of the rupee. India might no doubt suffer, with the rest of the world, from a long period of trade depression, but that is a risk which she cannot escape if she adopts, and adheres to, a gold standard. Moreover, it is a risk to which she will be equally subject whether she stabilises her exchange at 1*s*. 6*d*. or at 1*s*. 4*d*.

205. Broadly speaking, the arguments which have been brought forward to prove that a reversion to 1*s*. 4*d*. would be beneficial, merely show that, during a period of adjustment of conditions to that rate, certain sections of the community (*e.g.*, debtors, exporters, and employers of labour) would be benefited at the expense of certain other sections (*e.g.* creditors, importers, and wage-earners); they do not show that there would be any substantial permanent benefit even to any section at the expense of another, still less to the country as a whole.

Economic effects of a reversion to 1*s*. 4*d*.

206. On the other hand, the change would produce a profound disturbance in economic conditions throughout India. Even if our view that prices and wages have been substantially adjusted to the 1*s*. 6*d*. rate is challenged, it cannot be seriously contended that they are in any way adjusted to a rate of 1*s*. 4*d*. As we have already pointed out, it is more than 8 years since that rate was in stable operation, and, in view of the wide fluctuations that took place between 1917 and 1925, it seems clear that the only rate to which there can be any degree of adjustment is 1*s*. 6*d*. In so far as this adjustment has taken place—and we have given our reasons for believing that it is practically complete—a reduction of the rate of exchange to 1*s*. 4*d*. would produce a general rise of prices of 12½ per cent., a change which would be severely felt by consumers generally and especially by the poorer paid members of the literate classes. The adoption of a 1*s*. 4*d*. rate would result in an arbitrary reduction of the real wages of labour; and for the infliction of such a hardship we can see no justifica-

tion in equity or in expediency, in the interests of the classes directly affected, or of the community as a whole.

The effect of the change on foreign trade would be immediate and for a time convulsive. No one acquainted with the practical working of the exchange market can suppose that, once a policy of reversion to a lower rate had been announced, there would result merely a gradual and steady decline to that rate. There is always a considerable amount of latent demand for remittance to England, and, if the decision to adopt a lower rate were announced, remitters would at once endeavour to obtain the best price for rupees which they could get until the rate announced were reached. The tide would then turn the other way and there would be a very large demand for rupees at the new rate. This would have to be met by an offer to buy exchange without limit at the gold import point, thereby making additions to currency. This might possibly lead to a series of violent fluctuations before exchange settled down at the new lower rate. Whether such fluctuations took place or not, the sudden fall in exchange might easily create a boom which would be followed later by a slump.

Effect on public finances.

207. Some evidence has been put before us as to the effect which would be produced on the Government finances by a reversion to 1*s*. 4*d*. We do not regard this as a decisive factor; but we cannot ignore the fact that a reversion to 1*s*. 4*d*. would inevitably lead to increases in both Central and Provincial taxation and would probably also result in a postponement of further remissions of the Provincial contributions to Central revenues, and a setback to the development of nation-building projects in the Provinces.

208. As to the finances of the Government of India, the Budget is now based on an exchange rate of 1*s*. 6*d*. to the rupee. If exchange were lowered to 1*s*. 4*d*. it would no doubt be possible ultimately to make adjustments (including the grading-up of taxation in accordance with the decreased value of the rupee) which would enable the Government to meet its liabilities without any increase in the real burden of taxation. Nevertheless, the immediate effect on the Budget would be considerable. The financial authorities in India have estimated that, on the basis of the 1925-26 Budget, the net sterling expenditure of the Government of India would be at once increased by about three crores per annum. There would be a similar immediate increase in the railway expenditure. Although railway finances have been separated from general finances, the effect of a lowering of the exchange rate would be to require either an increase in rates and fares or a revision of the terms of the Railway Contribution; so that the whole or part of

this further increase might well become a charge on the general budget. There would be some extra expenditure on stores purchased in India, and some readjustment might have to be made in salaries of Government servants who would be affected by the increased cost of living. Some portion of the increased expenditure would no doubt be met from the increase in Customs revenue from such articles as are assessed on an *ad valorem* basis. This on a rough calculation, making some allowance for decrease in the volume of imports, would not exceed 2 crores. No estimate can be framed of any increased yield which might eventually be had from Taxes on Income. What is clear is that the immediate loss from the standpoint of public finance would be considerable and would require to be made up by increases in taxation, if the Budget were to be balanced, and by still further increases, if further reductions in the Provincial contributions or in existing forms of taxation were to be made.

209. A significant circumstance is the recent successful issue by the Government of India of a long term loan of Rs. 25 crores at 4 per cent. at a price of Rs. 88 per cent. That it is possible for India to borrow at a rate which compares favourably with the rate at which the most advanced countries can borrow at present is a matter of congratulation, and shows how high the financial credit of India stands. This improved position is based on the balancing of the Indian budget. A reversion to the 1*s*. 4*d*. ratio, by the very adverse effect which it would have on the budgetary equilibrium, would necessarily impair the credit of India as regards borrowing.

210. The effect on Provincial finances of lowering the rate to 1*s*. 4*d*. has been well described as follows by the Government of Madras :—

" Any policy adopted as a result of the recommendations of the Royal Commission may vitally affect the Government of Madras as a Local Government. The alteration in the level of prices which resulted from the war subjected their finances to a strain from which they have not yet fully recovered. The necessity for a revision of salaries was becoming evident even before the outbreak of the war, and during its course cases in which relief was most urgently called for were met by a series of expedients which were purely temporary in character. On the conclusion of the war a comprehensive measure of revision had to be undertaken, and the burdens thus imposed on the revenues of the Presidency were so great as to neutralise any benefit it received from the financial settlement in connection with the Reforms. The full liabilities which this revision of salaries imposed have not even now been liquidated, and only the fact that the considerable measure of stability in prices which has prevailed of late has rendered any further general measure of revision unnecessary has enabled the Madras Government to

meet the annual increase in its establishment and pension charges. If, as a result of changes in currency policy, a further rise in prices were to render a revision of salaries again necessary, the revenues of the Local Government would become inadequate to the strain, and the levying of additional taxation for improving the salaries of Government servants at the cost of the taxpayer, who would himself be affected by the rise in prices, would cause widespread discontent. This would be accompanied by a new period of readjustment of agricultural and industrial wages with all the dangers and unsettlement which that involves. The Madras Government trust, therefore, that theoretical arguments will not be allowed to obscure a practical issue to which they attach great importance."

Miscellaneous considerations.

211. We have referred in an earlier part of our Report to the difficulty of keeping the silver rupee in circulation if the price of silver were to rise above the melting point of the coin. With the rupee at 1*s*. 4*d*. the melting point would be reached if the price rose to approximately 43*d*. per standard ounce in London: with a 1*s*. 6*d*. rate the melting point would be at about 48*d*. per ounce. From the evidence that we have received as to the present state and future prospects of the silver market, it seems improbable that either of these levels will be reached for many years; but, as we have observed in paragraph 45, the future of the market is shrouded in obscurity, and in framing our proposals for reform of the currency system, we have deemed it prudent to envisage the possibility of a material rise in the price of silver at some future time. If such a rise should take place, it is obvious that a 1*s*. 6*d*. rate of exchange will provide a wider margin of safety than 1*s*. 4*d*., and though an insurance of this kind will not, in view of our recommendation as to the status of the note, be any longer a decisive consideration, it constitutes an advantage on the side of the 1*s*. 6*d*. rate.

212. There is one minor respect in which an advantage is claimed for the 1*s*. 4*d*. rate. At that rate of exchange the sovereign is equivalent to precisely 15 rupees, whereas at 1*s*. 6*d*. the value of the sovereign in Indian currency is Rs. 13 as. 5 ps. 4, a sum which would be very inconvenient if the sovereign were to circulate as money. This objection, however, will lose much of its force if the legal tender character of the sovereign is removed, and it will hold good only in regard to accounting, where the 1*s*. 6*d*. rate will involve a recurring decimal in the conversion of pounds into rupees. Even this objection is not as strong as it appears at first sight, because a crore of rupees will be exactly three-quarters of a million pounds. We have been told by Government witnesses that for their accounting purposes 1*s*. 6*d*. is not at all inconvenient. The

same is true in respect of commercial transactions. On the whole, therefore, the balance of convenience from the point of view of accounts seems to be about equal.

Conclusion.

213. The combined weight of all the above arguments leaves no doubt in our minds as to the right course. It brings us to the conclusion, as already indicated, that the rupee should be stabilised in relation to gold at the existing rate of 1*s*. 6*d*. The opportunity for reversion to the historic rate of 1*s*. 4*d*., if it ever existed, is gone; and the best interests of India as a whole now require that stability should be achieved without producing those disturbances which would be the inevitable consequence of adopting any rate but that which is current.

V.—MISCELLANEOUS RECOMMENDATIONS.

Means to promote banking development.

214. Reference has already been made to the importance of developing banking and investment facilities, and of finding means to encourage the people of India to divert their savings to profitable channels of investment. It does not fall within our terms of reference to suggest in detail all the measures which may be taken to this end. But, since the smooth working of a system of currency cannot but be impeded by the existence of large stores of currency in hoards, it is proper for us to urge, and we do urge emphatically, that nothing should be left undone which will tend to facilitate and encourage banking progress in India.

215. We are impressed by the great and growing activities of the Imperial Bank in the direction of the extension of up-country banking. We note with interest the recommendations on the subject of extension of banking facilities which have been made by the External Capital Committee. We should welcome any steps which can be taken in the direction of making an extensive and scientific survey of banking conditions in India. In any scheme of banking reform that may be planned, we trust that due emphasis will be laid on the provision and extension of cheap facilities to the public, including banks and bankers, for internal remittance.

216. Of the other measures which are understood to be under consideration, one which appears to us likely to be particularly fruitful is the abolition of the present stamp duty on cheques. This charge is undoubtedly an obstacle in the way of the development of banking in the country. It probably tends to restrain many people from opening

current accounts and so making payment by cheque instead of cash. A similar duty was at one time in force in the United States of America. It was found to be an unsatisfactory restraint upon the use of cheques and upon economy in the use of currency, and was abandoned. The abolition of the duty in India would hold out some prospect of a ready and wide adoption in the bazaars of cheques as a means of payment. This would be an appreciable step forward in the development of banking, and might well prove an important factor in bringing about a profound and still more widespread change in the economic habits of the masses.

Improvement of statistical material.

217. We have already taken occasion to remark on the absence of reliable and scientifically constructed statistics of prices and wages, and to recommend that these should be improved. The possession and utilisation of a reliable and reasonably complete body of statistical *data* is an essential of a sound currency system, and this is especially the case in a country like India where conditions vary so greatly in different parts of the country. It would be regrettable if the Reserve Bank should, at its inception, be handicapped by the absence of such an important aid to its activities as would be furnished by a full body of statistics.

VI.—PROCEEDINGS OF THE COMMISSION.

218. We first assembled at Delhi on the 23rd November, 1925, and we took evidence there, at Bombay and at Calcutta. We held in India 50 meetings and orally examined 46 witnesses. Amongst these were the representatives of 9 Chambers of Commerce. We concluded our sittings in India on the 8th January, 1926, and reassembled in London on the 1st March, where we heard evidence until the 12th May. We held in London over 50 meetings and orally examined 17 witnesses.

219. We wish to record our high appreciation of the ready assistance and helpful co-operation which we have received from all witnesses in India and in England, many of whom attended at considerable inconvenience to themselves. To the eminent foreign experts who have assisted us we express our particular thanks. We were fortunate in being able to hear, in London, distinguished authorities from the United States, who came over expressly to assist us, and we have received written evidence from others. To them our special thanks are due.

220. The record of oral evidence, a number of written statements of evidence, and other relevant documents, are issued

separately. The number of written statements of evidence received was over 135. Considerations of convenience and economy have precluded the inclusion in the published volumes of the whole of this material.

VII.—SUMMARY OF RECOMMENDATIONS.

221.—(i) The ordinary medium of circulation should remain the currency note and the silver rupee, and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold, but gold should not circulate as money. (Paragraph 54.)

(ii) The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involves the establishment of a Central Banking system. (Paragraphs 83-85.)

(iii) The Central Banking functions should be entrusted to a new organisation, referred to as the Reserve Bank. (Paragraphs 89, 90.)

(iv) Detailed recommendations are made as to the constitution (paragraphs 91-102) and functions and capacities of the Bank. (Paragraphs 139-164.)

(v) The outlines of a proposed charter are recommended to give effect to the recommendations which concern the Reserve Bank. (Paragraphs 139-164.)

(vi) Subject to the payment of limited dividends and the building up of suitable reserve funds, the balance of the profits of the Reserve Bank should be paid over to the Government. (Paragraphs 99, 100.)

(vii) The Bank should be given the sole right of note issue for a period of (say) 25 years. Not later than five years from the date of the charter becoming operative, Government notes should cease to be legal tender except at Government Treasuries. (Paragraph 141.)

(viii) The notes of the Bank should be full legal tender, and should be guaranteed by Government. The form and material of the note should be subject to the approval of the Governor-General in Council. A suggestion is made as to the form of the note. (Paragraphs 138, 149, 155.)

(ix) An obligation should be imposed by statute on the Bank to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. (Paragraphs 59-61, 150, 151.)

(x) The conditions which are to govern the sale of gold by the Bank should be so framed as to free it in normal circumstances

from the task of supplying gold for non-monetary purposes, The method by which this may be secured is suggested. (Paragraphs 64, 150.)

(xi) The legal tender quality of the sovereign and the half-sovereign should be removed. (Paragraphs 65, 66.)

(xii) Government should offer "on tap" savings certificates redeemable in 3 or 5 years in legal tender money or gold at the option of the holder. (Paragraphs 67, 68.)

(xiii) The paper currency should cease to be convertible by law into silver coin. It should, however, be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency, and of the Government to supply coin to the Bank on demand. (Paragraphs 69-71, 152.)

(xiv) One-rupee notes should be re-introduced and should be full legal tender. (Paragraph 72.)

(xv) Notes other than the one-rupee note should be legally convertible into legal tender money, i.e., into notes of smaller denominations or silver rupees at the option of the currency authority. (Paragraph 73.)

(xvi) No change should be made in the legal tender character of the silver rupee. (Paragraph 74.)

(xvii) The Paper Currency and Gold Standard Reserves should be amalgamated, and the proportions and composition of the combined Reserve should be fixed by statute (Paragraphs 75-77.)

(xviii) The proportional reserve system should be adopted. Gold and gold securities should form not less than 40 per cent. of the Reserve, subject to a possible temporary reduction, with the consent of Government, on payment of a tax. The currency authority should strive to work to a reserve ratio of 50 to 60 per cent. The gold holding should be raised to 20 per cent. of the Reserve as soon as possible and to 25 per cent. within 10 years. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape. Of the gold holding at least one-half should be held in India. (Paragraphs 78, 79, 131, 132, 153.)

(xix) The silver holding in the Reserve should be very substantially reduced during a transitional period of 10 years. (Paragraphs 80, 133-136, 145.)

(xx) The balance of the Reserve should be held in self-liquidating trade bills and Government of India securities. The "created" securities should be replaced by marketable securities within ten years. (Paragraphs 81, 116, 136, 145.)

(xxi) A figure of Rs. 50 crores has been fixed as the liability in respect of the contractibility of the rupee circulation. Recommendations are made to secure that an amount equal to one-fifth

of the face value of any increase or decrease in the number of silver rupees in issue shall be added to or subtracted from this liability, and the balance of profit or loss shall accrue to or be borne by the Government revenues. (Paragraphs 82, 120-123, 146-148.)

(xxii) The Issue Department of the Reserve Bank should be kept wholly distinct from its Banking Department. (Paragraphs 137, 143.)

(xxiii) The Reserve Bank should be entrusted with all the remittance operations of the Government. The Secretary of State should furnish in advance periodical information as to his requirements. The Bank should be left free, at its discretion, to employ such method or methods of remittance as it may find conducive to smooth working. (Paragraphs 103-109, 111, 140.)

(xxiv) During the transition period the Government should publish a weekly return of remittances made. A trial should be made of the system of purchase by public tender in India. (Paragraph 110.)

(xxv) The cash balances of the Government (including any balances of the Government of India and of the Secretary of State outside India), as well as the banking reserves in India of all banks operating in India, should be centralised in the hands of the Reserve Bank. Section 23 of the Government of India Act should be amended accordingly. (Paragraphs 111, 112, 140, 161, 162.)

(xxvi) The transfer of Reserve assets should take place not later than 1st January, 1929, and the Bank's obligation to buy and sell gold should come into operation not later than 1st January, 1931. (Paragraph 165.)

(xxvii) During the transition period the currency authority (i.e., the Government until the transfer of Reserve assets and the Bank thereafter) should be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the exchange. This obligation should be embodied in statutory form, of which the outline is suggested. (Paragraph 166.)

(xxviii) Stabilisation of the rupee should be effected forthwith at a rate corresponding to an exchange rate of 1*s*. 6*d*. (Paragraphs 168-213.)

(xxix) The stamp duty on bills of exchange and cheques should be abolished. Bill forms, in the English language and the vernacular in parallel, should be on sale at post offices. (Paragraphs 116, 216.)

(xxx) Measures should be taken to promote the development of banking in India. (Paragraph 214.)

(xxxi) Every effort should be made to remedy the deficiencies in the existing body of statistical data. (Paragraph 217.)

222. Upon our joint Secretaries, Mr. G. H. Baxter, of the India Office, and Mr. A. Ayangar, of the Indian Finance Department, has fallen the burden of organising our prolonged enquiry in India and in London. Their task has been performed with signal industry and ability, and their labours deserve our cordial appreciation.

We much regret that we were deprived by ill health at an early period of our deliberations of the valuable services as Secretary of Mr. A. V. V. Aiyar, C.I.E., of the Indian Finance Department.

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223. The signatories of this Report other than Sir Purshotamdas Thakurdas desire to add the following observations with reference to matters dealt with by him in his note of dissent.

224. We do not accept the historical retrospect in the note of dissent, but we have deliberately refrained in our retrospect from a detailed survey of the merits or demerits of the management of the currency in India since the silver standard was abandoned, partly because most of the ground had already been traversed by our predecessors, but mainly because we do not consider that any useful purpose would be served by attempting to apportion praise or blame for what is past. Any such attempt would probably result in injustice because currency theory and practice have undergone a steady process of evolution during the last quarter of a century, and it would be unfair in the light of later experience to condemn steps or decisions which were taken before that experience was acquired. We have delved in the past merely to the extent necessary to prepare the ground for future growth. We will only add, with reference to the conclusion in paragraph 45 of the note of dissent, that we do not regard the Government or people of India as committed to the principles recommended by the Fowler Committee to any greater extent than they stand committed to the principles recommended by other committees which have been accepted and acted on. We were instructed in our terms of reference to consider whether any modifications in the Indian exchange and currency system are desirable in the interests of India, and we have held ourselves free to make any recommendations which appeared to us to be desirable in those interests, whether they accord or do not accord with principles previously accepted.

225. In paragraph 53 of the note it is said that "I am not aware that any other countries, with a gold standard, and a central bank as the currency authority, have found it necessary to demonetise their gold coin". We must point out that in countries with a gold bullion standard such as that which we recommend

gold coin is demonetised in fact. In Great Britain, for instance, although there is gold coin of legal tender there is no means by which it can be obtained as of right. The only gold which can be obtained as of right is gold in bars, which are not currency. Thus gold coin cannot pass into circulation. This is an essential feature of the gold bullion standard to secure the automatic expansion and contraction of currency.

226. It is suggested in that part of the dissenting note which deals with a Central Bank for India that no serious curtailment of the Imperial Bank's commercial banking activities need be feared if it were entrusted with the functions of a Central Bank. It is the unanimous opinion of the Commission that if the sole right of note issue were to be entrusted to the Imperial Bank its charter would have to be amended to conform precisely to the conditions which we recommend. A perusal of these and in particular of the business the Bank may and may not do (see Schedule II) sufficiently demonstrates that the limitations put upon its business would prevent it from transacting the every day commercial banking business of the country or from entering into competition with the commercial banks in any general sense. We cannot therefore associate ourselves with the view that no serious curtailment of the Imperial Bank's commercial banking activities need be apprehended if it were limited to the business which can properly be transacted by a Central Bank. Such a limitation of its functions would, as we have said, deprive India of an indispensable component of its banking organisation and would leave a gap which could not be filled for many years by the growth of other indigenous institutions. Neither do we concur in the view that the establishment of an entirely new Central Bank will either lead to competition between it and the Imperial Bank or leave the Central Bank without sufficient scope for the employment of its funds. The charter which we recommend will obviate the first objection, while the experience of newly established Central Banks in other countries does not support the second objection.

227. As to that part of the note of dissent in which a reversion to a 1*s*. 4*d*. rate of exchange is advocated, there is no argument therein advanced which did not receive our most careful consideration before we arrived at our conclusions. The case appears to us to be fully dealt with in the relevant section of the Report. As to that portion of our colleague's argument which is based upon figures and statistics it will be understood that the accuracy and the completeness of the figures have not the authority of the Commission. We do not agree either with the discrimination which has been exercised in their choice, or with the inferences and deductions which have been based thereon.

The whole note contains many statements and inferences with which we have not thought it necessary or even relevant to deal, but which we in no way accept.

E. HILTON YOUNG (*Chairman*).
R. N. MOOKERJEE.
NORCOT WARREN.
R. A. MANT.
M. B. DADABHOY.
HENRY STRAKOSCH.
ALEX. R. MURRAY.
PURSHOTAMDAS THAKURDAS.*
J. C. COYAJEE.
W. E. PRESTON.

G. H. BAXTER } *Secretaries.*
A. AYANGAR }

Dated the 1st day of July, 1926.

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* Subject to the Minute of Dissent attached hereto.

ANNEXE.

SUMMARY OF THE SCHEME FOR A GOLD CURRENCY REFERRED TO IN PARAGRAPH 33 OF THE REPORT.

The scheme, which was placed before the Commission in evidence by the officials of the Finance Department of the Government of India, and which is set out in detail in Appendices 5 to 7 (Vol. II of Appendices), assumes the transfer of the management of the paper currency, and the conduct of the Government's remittance, to the Imperial Bank of India. The estimates and inferences are those of the authors of the scheme, and not of the Commission. Rupees are converted at 1*s*. 6*d*.

The eventual position would be:—

(*a*) Gold coin and bank notes to be unlimited legal tender, and silver rupees up to Rs.50 only.

(*b*) A statutory obligation on Government to give gold coin in exchange for gold bullion.

(*c*) A statutory obligation on the Bank to buy gold.

(*d*) Bank notes to be payable on demand in gold coin.

(*e*) Constitution of the new Reserve to be:—

(i) Gold holding to be not less than 30 per cent., subject to reduction on payment of a tax.

(ii) Gold securities or sterling trade bills to be not less than 20 per cent.

(iii) Remaining investments to be Government of India securities (not more than 90 crores) and internal trade bills.

(*f*) The Bank to undertake to keep the Secretary of State supplied with funds to meet the sterling charges of Government.

The rupee cannot be limited as legal tender until an opportunity has been given for holders of rupees to convert them into gold. The magnitude of this liability is indeterminate, but it is assumed that Rs.110 crores might be presented for conversion by the public. It would not be practicable to provide for the immediate conversion of such an amount; the following stages are accordingly suggested:—

(i) A statutory obligation on Government to sell gold bullion (in 400 oz. bars) at par, and to buy gold bullion at par less seignorage.

(ii) As soon as sufficient gold is available, a gold coin should be put into circulation, and offered as freely as resources permit, but without any definite obligation. (During these earlier stages it might be necessary to increase the supply of gold by external borrowing.)

(iii) After, say, five years, the liability to give gold coin in exchange for notes or rupees, and also for gold bullion on payment of seignorage, should be imposed.

(iv) After a further (say) five years the silver rupee should be made legal tender for sums up to a small fixed amount only (say, Rs.50).

During the transition period, it is assumed that the total of gold and gold securities in the Reserve may be allowed to fall as low as 30 per cent.

The Government would have for disposal some 200 crores of silver rupees (110 crores presented for conversion, *plus* about 90 already in the Reserve). This quantity represents about 687 million fine ozs. of silver, i.e., nearly three times the world's annual production. It would be necessary to spread the sales over a fairly long period. It is assumed, in

estimating the cost of the scheme, that they might be spread evenly over a period of ten years. The average price obtained may be expected to be not less than 24*d*. per standard ounce.

The amount of gold required (on the basis of a note issue of 189½ crores) for introducing the scheme in all its stages would be: Rs.27·2 crores additional for the Reserve, *plus* Rs.110 crores for the conversion of rupees; total, Rs.137·2 crores, or £103 millions.

It may be assumed that about £15 millions of gold would be required at the time of initiation of stage (i), a further £35 millions within a year, and the remaining £53 millions over a period of 10 years.

The cost of the scheme is estimated by its authors at about Rs.1⅔ crores per annum during the first five years and thereafter from two-thirds of a crore to 1·12 crore.

SCHEDULE I.

(Paragraph 64 of Report).

Note on the Method of Computing the Buying and Selling Rates for Gold.

1. The circumstances in which gold flows out of and into a Central Bank, for purely monetary reasons, in a country which has adopted the gold bullion standard are as follows:—

Gold will be withdrawn from the Central Bank only when the rate of exchange between the domestic currency and the currency of another gold standard country has reached a point at which it becomes profitable to individuals to ship it to the other country, sell it there to the currency authority at its statutory price and employ the proceeds for obtaining their domestic currency. On the other hand, gold will be sold to the Central Bank only when the rate of exchange between the domestic currency and the foreign currency has reached a point at which it becomes profitable to individuals to convert it into the foreign currency, to buy with it, from the foreign currency authority, gold at the statutory price, ship the gold to their own country, and there present it to the Central Bank for reconversion into the domestic currency. These conditions will be reached when the domestic currency varies from its par value by an amount equal to the cost of shipping it to or from the foreign gold centre.

2. This may conveniently be expressed as follows, using illustratively the particular case of rupees and sterling:—*

Let x denote the number of rupees† required to buy in Bombay a telegraphic transfer on London for the sterling equivalent of one tola of fine gold.

Let p denote, in rupees per tola of fine gold, the gold par value laid down for the rupee.

Let n denote in rupees the cost (including packing, freight, insurance, and loss of interest in transit) of shipping one tola of fine gold from London to Bombay.

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*For the purpose of this generalised statement, the small difference between the Bank of England's buying and selling prices for gold may be ignored.

†i.e., the rate of exchange, here expressed in a somewhat unfamiliar manner in order to relate all the expressions to a given weight of fine gold.

Then gold will be withdrawn from the Central Bank, and shipped abroad, when

x is greater than $(p + n)$;

and gold will be imported, and sold to the Central Bank, when

x is less than $(p - n)$.

When x lies betwen $(p + n)$ and $(p - n)$, *i.e.*, when the rate of exchange lies between the "gold points," it is not profitable for individuals, *for purely monetary purposes*, to withdraw gold from the Bank or to import and sell it to the Bank.

3. It cannot be assumed that, in the case of India, gold movements can be confined to those for purely monetary purposes; unless, therefore, the Central Bank is relieved of the necessity of supplying gold within the two gold points of the exchange, it would be exposed to a constant drain upon its gold reserves for purposes other than those for which they are held. The gold and gold security reserves of a Central Note-Issuing Bank serve the purpose of rectifying a temporary disequilibrium in the balance of foreign payments. They are held to enable external obligations to be discharged pending an adjustment being achieved (by an appropriate credit policy) of the value of the currency to its parity with gold. The reserves exist to assure the maintenance at parity with gold of the purchasing power of the monetary unit, i.e., to meet purely monetary needs. It is evident that, if they can be drawn upon in the ordinary course to satisfy non-monetary purposes to anything but a minor extent, the Bank's primary task, viz., to maintain the external value of the currency, will be jeopardised. To avoid having its gold reserves depleted in these circumstances, and to replenish them when a drain occurs, the Bank has at its command but one weapon, that is credit control. It would have to follow a more or less permanent policy of so restricting the monetary circulation by a contraction of credit as to cause the rupee to appreciate beyond the upper gold point of the exchange. That is the only way in which gold can be attracted from abroad to make good the loss of reserves due to an internal drain. It is obvious that such a state of things would have highly injurious reactions on the internal economy of India, and should consequently be avoided.

4. London is undoubtedly the most convenient gold centre for India. Not only is the currency of Great Britain freely convertible into gold at statutory prices and exportable in that form, but there is also an extensive bullion market. London is India's clearing house for her foreign commercial and financial transactions, and the available means of communication are such as to assure the movement of gold to and from India to be less subject to uncertainties than would be the case if any other of the great gold centres were chosen.

In what follows it has therefore been assumed that London will be treated as the gold centre in relation to which the appropriate buying and selling rates for India will be calculated.

5. It is required so to frame the Bank's obligation to sell gold as to make it unprofitable for gold to be bought from it except in circumstances in which it would be profitable to do so for purely monetary purposes.

6. Reverting to the symbols employed in paragraph 2 above, the rupee equivalent of the price of gold in the gold centre (London) is x rupees per tola. So that, when $x = p + n$ (i.e. the exchange is just within the gold points), the price of gold in London $= (p + n)$ rupees per tola. The cost of shipping being n rupees per tola, the cost of laying down in Bombay gold from London will then be $(p + 2n)$ rupees per tola. It follows, that the lowest rate at which the Central Bank can safely sell gold, when exchange is within the gold points, is $(p + 2n)$ rupees per tola, for delivery in Bombay, or $(p + n)$ rupees per tola, for delivery in London.

7. *Value of n.*—The following table gives the various elements that enter into the value of *n*, taking London as the foreign centre. (For purposes of comparison the corresponding figures for two other centres are also given.)

—	From London *ex* Bank of England, or to London (Bank of England).	From South Africa *ex* Durban.	From New York *ex* Mint.
	Per cent. s. d.	Per cent. s. d.	Per cent. s. d.
Freight	15 0	12 6	10 0
Insurance	2 3	1 3	3 2·5
Packing, etc.	0 3	0 3	—
Mint charges	—	—	1 2·5
Bank charges	—	—	0 6
Total transport charges... ...	17 6	14 0	14 11
Interest at 5 per cent. for period of transit, 21 days between London or Durban and Bombay and 35 days between New York and Bombay.	5 9	5 9	9 7

The cost of transport, etc., expressed as a percentage of the cost of gold at the foreign centre, and taking London as the foreign centre, is thus 23s. 3d. per cent. = 1·1625 per cent.

8. *Buying rate for gold.*—

1 tola of fine gold = 180 grains of fine gold.

480 grains of fine gold = 1 oz. of fine gold.

1 oz. of fine gold = 84s. $11\cdot\dot{4}\dot{5}$d. (price per fine oz. corresponding to Bank of England's selling price of 77s. 10·5d. per standard oz.).

1s. 6d. ... ... = 1 rupee (par of exchange).

$$\therefore 1 \text{ tola of fine gold} = \frac{180 \times 84\text{s. } 11\cdot\dot{4}\dot{5}\text{d.}}{480 \times 1\text{s. } 6\text{d.}}$$

= Rs. 21 3as. 10ps. (approx).=Rs. 21·239583.

9. *Selling rates for gold.*—When the telegraphic transfer rate on London is at or above the upper gold point (see table below), the selling rate, for delivery Bombay, is the same as the buying rate, viz.: Rs.21 3as. 10ps. per tola of fine gold.

When the telegraphic transfer rate on London is below the upper gold point, the selling rate,

(*a*) for delivery London, is:—

Rs.21 3as. 10ps. + cost of transport, etc.
= Rs.21 3as. 10ps. + 1·1625 per cent. of Rs.21 3as. 10ps.
= Rs.21 7as. 9ps. (approx). = Rs.21·484375.

(*b*) for delivery Bombay, is:—

Rs.21 3as. 10ps. + twice cost of transport, etc.
= Rs.21 3as. 10ps. + 2·325 per cent. of Rs.21 3as. 10ps.
= Rs.21 11as. 9ps. (approx).

10. *The Gold Points.*—

$$\left\{\frac{\text{Reserve Bank selling price (London).}}{\text{Bank of England buying price.*}}\right\} = \left\{\frac{21\cdot484375 \times 480}{4\cdot240909 \times 180}\right\} = \left\{\begin{array}{l}13\cdot50929 \text{ rupees to £1} \\ = 17\cdot76555\text{d. per rupee} \\ (\text{say, } 17\tfrac{49}{64}\text{d}).\end{array}\right.$$

$$\left\{\frac{\text{Reserve Bank buying price (Bombay).}}{\text{Cost in Bombay of gold } ex \text{ Bank of England.†}}\right\} = \left\{\frac{21\cdot239583 \times 480}{4\cdot297221 \times 180}\right\} = \left\{\begin{array}{l}13\cdot18035 \text{ rupees to £1} \\ = 18\cdot20893\text{d. per rupee} \\ (\text{say } 18\tfrac{13}{64}\text{d.}).\end{array}\right.$$

* Price per fine ounce corresponding to Bank of England buying price of 77s. 9d. per standard ounce.

† Price per fine ounce corresponding to Bank of England selling price of 77s. 10½d. per standard ounce, *plus* a percentage to cover transport charges and interest during transit.

SCHEDULE II.

(Paragraphs 102 and 163 of Report).

Business of the Reserve Bank.

Business which the Bank should be authorised to carry on and to transact.

The several kinds of business which the Bank should be authorised to carry on and to transact are specified below:—

(1) It may make and issue bank notes.

(2) It may accept money on deposit on current account from and collect money for the Government of India, Provincial Governments, banks and bankers.

(3)—(*a*) It may buy, sell, or rediscount bills of exchange, promissory notes, or other commercial paper, arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which must be that of a bank or banker, and having a maturity not exceeding 90 days, payable in India.

(*b*) It may buy, sell, or rediscount, to an amount not exceeding 20 per cent. of the bank's total discounts, bills of exchange, promissory notes, or other commercial paper, bearing two or more good signatures one of which must be that of a bank or banker, drawn or issued in respect of current transactions for agricultural purposes, and having a maturity not exceeding six months.

(*c*) It may buy, sell, or rediscount bills of exchange and promissory notes, with a maturity not exceeding 90 days, bearing the endorsement of a bank, issued or drawn for the purpose of carrying or trading in Government of India securities.

(*d*) It may buy and sell securities of the Government of India, or of a Provincial Government or a local authority in India, having not more than six months to run, provided that the amount of such securities held does not, in the aggregate, exceed at any time an amount equal to 25 per cent. of the liabilities of the banking department in respect of deposits.

(4) It may make loans or advances for fixed periods not exceeding 90 days against the security of:—

(*a*) Stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor-General in Council.

(*b*) Gold coin and bullion or the documents relating to the shipment or storage thereof.

(*c*) Such notes, drafts, bills of exchange and bankers' acceptances as are eligible for purchase or rediscount by the bank (but advances against securities specified in (3) (*b*) shall not exceed 20 per cent. of the total advances made by the bank).

(*d*) Such foreign drafts and acceptances as are eligible for purchase by the bank and are referred to in clause (6).

(5) It may make advances to the Government of India for Ways and Means purposes, provided that the whole of the advances is repaid not later than at the end of the quarter following the close of the fiscal year in respect of which the advances were made.

(6) It may buy from and sell to banks, bankers, and parties approved by the Central Board of the bank, in amounts of not less than the equivalent of Rs. 1 lakh, transfers by telegram or letter, sight drafts, trade acceptances, bankers' acceptances, and bills of exchange (including

treasury bills), drawn in or on places in such foreign countries as adhere to the gold or gold exchange standard, of a maturity not exceeding 90 days, and it may keep in such foreign countries credit balances with banks or bankers.

(7) (*a*).—It may invest a sum, not exceeding its paid-up capital and reserve, in securities, having not more than 5 years to run, of the Government of India, or other Governments, provided that the capital and interest of such latter securities are payable in gold or a currency which by statute is convertible into gold.

(*b*) It may invest its staff and superannuation funds in securities of the Government of India of any maturity.

(8) It may buy and sell all securities which are eligible as, and utilised for, the cover of the note issue, as defined in the clause dealing with the conditions governing the issue of notes by the bank.

(9) It may issue demand drafts and make, issue and circulate bank post bills made payable on its own branches.

10) It may accept the custody and management of moneys, securities and other articles of value.

(11) It may sell and realise all property, whether moveable or immoveable, which may in any way come into the possession of the bank in satisfaction, or part satisfaction, of any of its claims.

(12) It may act as agent for the Government of India and Provincial Governments in the transaction of the following kinds of business, viz:—

(*a*) The buying and selling of precious metals.

(*b*) The buying, selling, transferring and taking charge of any bills of exchange securities or any shares in any public company.

(*c*) The receiving of the proceeds, whether principal interest or dividends, of any securities or shares.

(*d*) The remittance of such proceeds, at the risk of the principal, by public or private bills of exchange payable either in India or elsewhere.

(13) It may buy and sell gold whether coined or uncoined.

(14) It may open accounts in foreign countries, and act as agent or correspondent of any bank carrying on business in or outside India.

(15) Generally, it may do all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business hereinbefore specified.

Business which the Bank should not be authorised to carry on or to transact.

The kinds of business which the Bank should *not* be authorised to carry on or to transact are the following:—

(1) It shall not engage in trade, or otherwise have a direct interest in any commercial, industrial, or other undertaking, save interests which may in any way come into the possession of the bank in satisfaction, or part satisfaction, of any of its claims, provided that these interests are disposed of at the earliest possible moment.

(2) It shall not purchase its own shares, or the shares of any other bank or corporation, or grant loans upon the security of the same.

(3) It shall not advance money on mortgage of fixed property, or on notarial or other bond, or cession thereof, or become the owner of fixed property except so far as is necessary for its own business premises.

(4) It shall not make unsecured loans or advances.

(5) It shall not draw or accept bills payable otherwise than on demand.

(6) It shall not accept money on deposit for a fixed term, or allow interest on credit balances.

SCHEDULE III.

(Paragraph 145 of Report).

Note showing the effect of the Commission's proposals on the constitution and working of the Reserves.

(For purposes of this Note, gold and sterling have been converted at 1s. 6d. per Rupee.)

1. The following is (in aggregate) the constitution of the present Paper Currency and Gold Standard Reserves as on the 30th April, 1926:—

Liabilities.	*Rs. crores.*	*Assets.*	*Rs. crores.*
Note issue	185	Silver	85
Rupee redemption	*	Rupee securities	57
		Sterling securities	81
		Gold	30
			253

2. Under the scheme outlined in the Report the following changes are contemplated:—

(1) *Liabilities.*—Initial liabilities will include Rs. 50 crores† in respect of the rupee circulation (inclusive of the rupees retained in Reserve). Future liabilities will be increased by the full amount of further note issues. (Paragraph 146 of Report).

(2) *Assets.*—(*a*) Gold and gold securities will be 40 per cent. of liabilities (minimum) from outset.

(*b*) Gold will eventually be 25 per cent. of liabilities (minimum), to be attained by the following stages: not less than 20 per cent. after 5 years, and not less than 25 per cent. after 10 years; with a minimum (overriding) of 30 crores.

(*c*) Rupee securities will be not more than 25 per cent. of liabilities, with a maximum (overriding) of 50 crores.

(*d*) Rupee coin will not be held in excess of the maxima set out below:—

To end of 3rd year	70 crores	or 10 per cent. of liabilities whichever is greater.
From end of 3rd to end of 6th year	50 ,,	
From end of 6th to end of 10th year	35 ,,	
From end of 10th year	25 ,,	

(Paragraph 145 of Report).

3. The following transitory provisions have been recommended:—

(*a*) In order to carry out provisions (*c*) and (*d*) above, and to enable the new Bank to show in the opening accounts of its Issue Department a reserve ratio of gold and gold securities to liabilities of not less than 50 per cent. (i.e., to show a good margin above the

* The amount of the Gold Standard Reserve, whose functions include this liability, is Rs. 53½ crores.

† This figure may be subsequently increased or decreased, according as there is a net absorption of rupees or a net return from circulation. (*See* paragraph 3 (*c*) of this Schedule.)

minimum requirement), the Government of India should replace 7* crores of their created rupee securities by gold securities. If the Government should find it difficult to do so immediately they may be allowed to replace such rupee securities by 7* crores of Government of India sterling Treasury Bills (created *ad hoc*), these to be replaced within 2 years by gold securities of the kinds laid down elsewhere as eligible to be held in the Reserve. (Paragraph 145 of Report).

(*b*) The surplus of 18* crores in assets at the outset should be retained by Government in the form of silver, including the whole of the silver bullion, the balance being in silver coin. The Government should not re-issue (except to the Bank on demand) this coin or any rupee coin delivered by the Bank subsequently as redundant, vide (*c*) below. (Paragraph 145 and 148 of Report).

(*c*) The Bank should have the right to deliver to the Government redundant rupee coin in Reserve, i.e., any rupees coming into the Reserve in excess of the maxima stated in paragraph 2 (*d*) above. The Government would pay for every Rs. 5 thus received in coin Rs. 4 in notes, gold or gold securities, the Bank writing off the difference, of Re. 1, by a reduction of the figure of rupee redemption liability. (Paragraph 147 of Report).

The reverse procedure would be followed when rupees were delivered by the Government to the Bank on demand.

4. As a result of these proposals the constitution of the Reserve would at the outset* be as follows:—

Liabilities.		*Assets.*		
Note issue	185	Silver coin	67	
Rupee redemption	50	Rupee securities ...	50	
		Gold securities ...	88	118=
		Gold	30	50%
	235		235	

Gold and sterling securities would thus be 50 per cent. of total liabilities; and the Bank would be enabled, without overstepping the minimum statutory reserve ratio, to issue further notes against bills to the maximum of 60 crores.

* These figures, and those in the table in paragraph 4, are based upon the composition of the Reserves as in paragraph 1 above. They will require modification if the composition is different at the time of transfer.

SCHEDULE IV.

(Paragraph 157 of Report).

Suggested Form for Presentation of the Reserve Bank's Accounts.

Reserve Bank of India.

An Account pursuant to the Reserve Bank of India Charter Act, 192 , for the week ending on the day of .

Issue Department.

Liabilities.			*Assets.*	
Bank Notes held in the Banking Department	Rs.		Rupee coin	Rs.
Bank Notes in circulation	Rs.		Government of India rupee securities ...	Rs.
Total Bank Notes issued ...		Rs.	Domestic Bills of Exchange	Rs.
Government of India Notes in circulation ...		Rs.	Gold securities	Rs.
Rupee redemption ...		Rs.	Gold specie or bullion ...	Rs.

Ratio of gold and gold securities to liabilities, per cent.
Dated the day of , 19 .

Chief Cashier.

Banking Department.

Liabilities.	Rs.	*Assets.*	Rs.
Capital paid up		Notes	
Reserve ...		Silver rupee coin ...	
Deposits—		Subsidiary coin ...	
(*a*) Government		Bills discounted—	
(*b*) Bankers		(*a*) Domestic ...	
(*c*) Others		(*b*) Foreign	
Bills payable		(*c*) Government of India Treasury Bills	
Other liabilities		Balances held abroad ...	
		Loans and advances to the Government ...	
		Other loans and Advances	
		Investments	
		Other Assets	

Dated the day of , 19 .

Chief Cashier.

SCHEDULE V.

(Paragraph 166 of Report).

Suggested Outline Form of the Statutory Provisions to be in Force during the Period of Transition

1. The Government of India shall receive from any person making a demand at the Office of the Controller of the Currency, or the Deputy Controller of the Currency, Bombay, or at any other office of the Government which may be notified for the purpose in the Gazette of India, gold in the form of bars containing approximately 400 fine ozs., in exchange for legal tender money, at the rate of Rs.21 as. 3 ps. 10 per tola of fine gold, subject to conditions to be notified in the Gazette of India.

2. The Government of India shall sell to any person in India who makes a demand in that behalf at the Office of the Controller of the Currency, Calcutta, or the Deputy Controller of the Currency, Bombay, or at any other office of the Government which may be notified for the purpose in the Gazette of India, and pays the purchase price in any legal tender money, gold for delivery at Bombay at the rate of Rs.21 as. 3 ps. 10 per tola of fine gold or at the option of the Government an equivalent amount of gold exchange (as defined below) payable in a country or countries outside India maintaining a free gold market and approved by the Governor General in Council subject to the condition that no single demand for gold or gold exchange shall represent a less value in gold than approximately 400 fine ozs.

The " equivalent amount of gold exchange " referred to shall be a sum in foreign currency calculated by the Government of India to represent the standard price of one tola of fine gold in the country outside India concerned less an amount representing the normal charges of a remittance of gold bullion from India to the country concerned. For this purpose the Government shall notify in the Gazette of India the country or countries upon any one of which, at the choice of the purchaser, gold exchange will be issued, and the rates of gold exchange.

Note.—The provision as drafted above is intended to relate to the period during which the Government of India remains the currency authority. From the date when the control of the currency is transferred to the Reserve Bank to the date when the Bank assumes the final obligation to buy and sell gold, a statutory provision imposing similar obligations on the Bank should be put into force, with the requisite modifications. There should then be a proviso that the notifications as to the conditions of purchase of gold, as to the rates of gold exchange, and as to the country or countries upon which gold exchange will be issued, should be subject to the previous approval of the Governor General in Council.

NOTE BY SIR NORCOT WARREN.

Whilst joining in the recommendations of this Report, and advocating them without reservation, I wish to avoid any possibility of misconception by expressly stating that I do so in my personal capacity as a member of the Commission, and not in any representative capacity on behalf of the Imperial Bank of India. As a member of the Commission, my duty, which is wholly towards the public, is separate and distinct from my duty towards the Institution of which I am a Managing Governor. It will therefore be understood that by making these recommendations in so far as they may affect the Imperial Bank of India, I have neither the desire nor the capacity to commit that Bank.

NORCOT WARREN.

MINUTE OF DISSENT BY SIR PURSHOTAMDAS THAKURDAS.

I have signed the Report subject to the following Minute of Dissent.

I. HISTORICAL RETROSPECT.

1. My colleagues state in paragraph 11 of the Report that the stability of the gold value of the rupee is "based upon nothing more substantial than a policy of the Government, and at present that policy can be found defined in no notification or undertaking by the Government. It has to be implied from the acts of the Government in relation to the currency, and those acts are subject to no statutory regulation or control."

2. With this I entirely agree. But it is necessary to enquire whether the currency system and practice as developed, constitute a material departure from the main principles of the policy laid down 27 years ago, accepted by Government, and still binding on them, and if so, whether such departure was made either with the consent of representatives of the people, or with the approval of the Government of India, who were best able to judge of India's requirements.

3. The present currency system in India, as referred to us, starts with the closing of the Indian mints to free coinage of silver in 1893, and the recommendations of the Fowler Committee to link the rupee to gold, making the former a token coin for internal circulation. There have been one Royal Commission and one Committee since the Fowler Committee reported, and both give a history of the currency system of India since 1898. Whilst anxious, therefore, not to duplicate the historical facts by repeating them here, I feel it incumbent upon me, for a full elucidation of the problem before us, to summarise the history of the Indian currency system since 1898, by quoting the revelant despatches between the Government of India and the Secretary of State for India, with reference to each important aspect of the working of the Fowler recommendations, and the official policy supposed to have been based thereon.

4. Till 1893, India had a silver standard with free coinage of silver, and the rupee was a full value silver coin. Owing to the discarding of silver as a standard of value in leading countries in the West after the Franco-German War, wild fluctuations took place in the rates of exchange between India and gold standard countries. In response to a widespread general feeling amongst the organised sections of the commercial community in India, the Government of India proposed to the Secretary of State the stopping of the free coinage of silver with a view to the introduction of a gold standard. The Herschell Committee, to whom the proposal was referred for investigation and report, approved of the Government of India's proposals, with certain modifications. The recommendations of that Committee were accepted* by Her Majesty's Government; and in 1898 the Fowler Committee was appointed to consider and report on "the proposals of the Government of India for making effective the policy adopted by Her Majesty's Government in 1893 and initiated in June of that year by the closing of the Indian Mints to what

* *Note.*—See Notifications of 26th June, 1893, whereby arrangements were made for :—

(1) The receipt of gold at the rate of 7·53344 grains of fine gold per rupee.

(2) The acceptance of sovereigns at Rs. 15.

(3) The issue of currency notes in exchange for sovereigns or gold bullion. (See pp. 66, 67, East India—Mint for Gold Coinage, 1913, No. 495.)

is known as the free coinage of silver. That policy had for its declared object the establishment of a gold standard in India."*

The Fowler Recommendations.

5. The Fowler Committee "looking forward . . . to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold,"† recommended that:—

(1) The Indian Mints should continue closed to the unrestricted coinage of silver and should be opened to the unrestricted coinage of gold.

(2) The sovereign should be made legal tender and a current coin.

(3) The ratio between the rupee and the pound sterling should be Rs.15 to the pound, i.e., the exchange value of the rupee should be 1*s*. 4*d*.

(4) No legal obligation to give gold for rupees for merely internal purposes should be accepted; but

(5) The profit on the coinage of rupees should be held in gold as a special reserve and made freely available for foreign remittances whenever exchange fell below gold specie point.

(6) The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public.

These recommendations were accepted "without qualification" by the Secretary of State, who on the 25th of July, 1899, "requested the Government of India to make reparation for the coinage of gold."‡

(i) GOLD CURRENCY.

First Stage: 1899 *to* 1902.

6. On the 31st of July 1899 the Viceroy telegraphed to the Secretary of State that the Government of India were preparing for the coinage of gold. The subsequent history of this essential project of a gold mint is recorded by the Government of India in their Despatch No. 110, of the 16th of May 1912:—

"(5) The Government of India put forward definite proposals for establishing in the Bombay Mint a branch of the Royal Mint for the coinage of sovereigns. A proclamation to effect this object was drafted, and received the approval of the Lords Commissioners of the Treasury. Meanwhile, difficulties had arisen regarding a number of administrative details connected with the establishment of the proposed branch mint. These difficulties occasioned much correspondence between the Secretary of State, the Treasury, and the Government of India, and the latter expressed their willingness throughout to carry out the requirements of the authorities of the Royal Mint. In May 1901 the Mint authorities expressed themselves as satisfied, but the Lords Commissioners of the Treasury, for the reasons given in their letters, No. 8239, dated the 22nd of May 1901 and No. 10,489, dated the 9th of July 1901, copies of which were forwarded with Lord George Hamilton's Despatch, No. 130, dated the 26th of July 1901, invited the Secretary of State to reconsider the whole question. They admitted that the original decision to coin sovereigns in India was a wise one, as indicative of the determination of the Government of India to adhere to a gold standard and of their intention to take practical measures to establish it. They pointed out, however, that subsequent experience had shown that the gold standard

* Fowler Committee Report, Par. 1.
† Fowler Committee Report, Par. 54.
‡ Pars. 6 and 7, p. 8, East India—Mint for Gold Coinage, 1913, No. 495

was already firmly established in the public confidence, that sovereigns were being readily attracted to India whenever required, and that there was no reason for believing that the position of the gold standard in India would be strengthened, or public confidence in the intentions of the Government of India confirmed, by the mere provision of machinery for the manufacture of gold coins in the country. They further pointed out the practical difficulties in the way of the establishment of a branch of the Royal Mint in India, an arrangement which they described as anomalous, and likely in practice to give rise to inconvenience and possible friction.

"(6) Upon receipt of the views of the Lords Commissioners, the Government of India decided, for the time being, not to persevere with the proposals. In their despatch of the 25th of December 1902 they refrained from expressing any agreement or disagreement with the reasons advanced by the Treasury. But they had ascertained that the chief Indian Mining Companies had made arrangements for the regular sale of their gold outside the country, and that they were unlikely to alter those arrangement at an early date. In the absence of an assurance that a steady supply of Indian gold would be available for minting, Lord Curzon's Government preferred to drop the scheme, at the same time expressing their willingness to revive it should conditions change.

"(7) No public explanation was given in India of this sudden recession from what had hitherto been regarded as an essential feature of the currency policy inaugurated in 1893 and definitely established on the recommendations of the Currency Committee of 1898 . . . ."

7. It is necessary to note here that this decision followed the failure of the Government's attempt to issue sovereigns in 1900 owing to famine conditions,* when, because of the low purchasing power then prevailing throughout India, the sovereign was an unsuitable form of currency.

Second Stage: 1909-1910.

8. In 1909, the Government of India in their despatch No. 236 of the 30th of September 1909 applied to the Secretary of State for a holding of about £9 million liquid gold in the Paper Currency Reserve, in order to make a gold currency possible. They stated in Paragraph 8 of that despatch that the popularity of the sovereign was rapidly increasing till checked by the crisis of 1907-8, and that sovereigns were actually changing "hands at a premium even in the chief commercial centres of the country, while for ordinary purposes they are practically unobtainable." They also urged in the same despatch: "We are of opinion that you should stay further drawings other than those required for ways and means purposes, for if further trade demand for money be genuine, the result must then be that gold will come out to us in India." (Paragraph 10.)

9. The Secretary of State by his despatch No. 25 of the 18th February, 1910, Paragraph 4, rejected these suggestions of the Government of India on the ground that they "might cause the periodical recurrence of stringency in the London money market." He also refused, by Paragraph 6 of his despatch, to allow the Government of India to publish the correspondence with him on the subject.

Third Stage: 1912-1913.

10. In 1912, the Government of India again urged the opening of a branch of the Royal Mint in India by their despatch No. 110 of the 16th of May 1912. This despatch gives a full history of the gold mint question from 1899 to 1912, and meets the various arguments that are advanced against a gold currency in India. The Secretary of State forthwith got

* Chamberlain Commission Report, Par. 25, p. 10.

in touch with the Treasury on the 27th of June 1912, and the latter by their reply of the 8th of August 1912, intimated that the Lords Commissioners of His Majesty's Treasury "are prepared to co-operate in giving effect to the proposal" but regret that they are "quite unable to agree to any scheme involving divided control." The Secretary of State, by his despatch No. 139 of the 18th of October 1912 communicated the Treasury's reply to the Government of India, pointing out in Paragraph 3 the two alternatives offered by them. In Paragraph 5 of his despatch he intimated to the Government of India that if both the alternatives "are dismissed, it will remain to consider whether it is desirable to produce at one of the Indian Mints a separate Indian gold coin of the denomination of, say, Rs.10; this course would be inexpensive and would avoid the interference of the British authorities in your general coinage operations." He added that he would be prepared "to sanction the issue of such a coin."

11. On the 20th of January 1913, the Government of India in a telegram said: "As you anticipated, we do not favour either of the alternatives offered by the Treasury. We therefore accept your offer to sanction the issue of a separate India gold coin of the denomination of Rs.10. We shall submit our proposals as to details of the coinage in due course." Thereafter it appears from Sir Lionel Abrahams' evidence before the Chamberlain Commission (Q. 1143) that discussion took place as to the dates on which "it would be desirable to make an announcement." On the 24th January, however, the Secretary of State suggested that, "before any final decision was taken, the usual procedure for eliciting public opinion in India should be followed." It need only be recalled here that in their despatch of the 16th of May 1912 the Government of India had stated that "it was not until last year, when a resolution was moved in the Imperial Legislative Council by Sir Vithaldas Thackersey, that the Government of India were formally invited to revive the proposals which had so nearly reached fruition a decade previously, and to embark on the coinage of gold. The discussion thus started has been vigorously taken up by the Press and by commercial interests both in India and England, and the whole subject has been thoroughly ventilated in a manner which makes any special reference to mercantile bodies in this country unnecessary." The Secretary of State informed the Government of India on the 14th of February that the Royal Commission, by that time proposed, "would inquire *inter alia* into the Indian currency administration." On the 10th of April the Government of India wrote that "the only possible course now" was to leave the question of the gold coinage for the Commission to decide.

Fourth Stage: Wartime Coinage.

12. During the War, the Bombay Mint was made a branch of the Royal Mint for the coinage of sovereigns for a short period. Later on, when some technical difficulties arose in this connection, the Bombay Mint coined gold mohurs of the weight and fineness of the sovereign. The Babington-Smith Committee, in Paragraphs 66 and 67 of their Report, recommended "that the branch of the Royal Mint which was opened in Bombay during the war for the coinage of sovereigns and half-sovereigns and has since been temporarily closed, should be reopened, and that arrangements similar to those in force in the United Kingdom should be made for the receipt of gold bullion from the public for coinage. The Government of India should announce its readiness to receive gold bullion from the public, whether refined or not, and to issue gold coin in exchange at the rate of one sovereign for 113·0016 grains of fine gold, subject to a small coinage charge."

Fifth Stage: Post-war Guarantee.

13. On the 24th of January 1922, Sir Malcolm Hailey, then Finance Member, spoke as follows in the Legislative Assembly, on a resolution

moved by the late Sir Vithaldas D. Thackersey on the subject of Currency and Exchange:—

"Now, Sir, let me turn to the second part of the Resolution. It proposes that the suggested Committee should consider the question of opening the Indian Mints to the free coinage of gold. Now, I must really assume that my Honourable friend, Sir Vithaldas Thackersey, expert as he is in these questions, has really included this in his Resolutions to satisfy the feelings of some of his friends, rather than because he himself supposes that this question does actually need the further investigation of an expert Committee. He is well aware, Sir, that it was a cardinal feature in the policy of the Babington-Smith Committee that the Indian Mints should be opened to the free coinage of gold. Indeed, one of the intentions of the Committee in fixing the rupee on a gold basis was to permit of the free use of gold currency in India, and the opening of the Mints to the free coinage of gold is an aid to such a process, though of course it is not in itself an essential condition of it. We, Sir, are prepared out here to coin gold as soon as the need for gold currency arises. Sir Vithaldas Thackersey suggested that the Royal Mint might on technical grounds refuse to allow us to do so. He need have no fear on that score. I can give him a guarantee that, as soon as the demand for gold currency arises, the Mint will be ready for it."*

14. This, in short, is the history of what the Treasury called in their letter dated the 9th of July 1901 to the India Office, "the frank abandonment of one of the details of the policy recommended by the Indian Currency (Fowler) Committee, which experience has shown to be unnecessary." In their preceding letter of the 22nd of May, to the India Office, they had already expressed the opinion that "The gold standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy."

(ii) Gold Standard Reserve.

15. Another important recommendation, material to the Fowler Committee's scheme adopted by the Government of India, was that "any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."*

The First Departure.

16. In September 1900, the Government of India proposed to inaugurate this special reserve of gold. But the profits on coinage for the preceding year, amounting to £1 million, were temporarily unavailable, having been used to meet pressing famine demands. The then Viceroy, Lord Curzon, and the Finance Member, Sir Edward Law, disagreed on the policy to be adopted with regard to the gold holding in the Paper Currency Reserve. A lengthy despatch, No. 302 of the 6th September 1900, was addressed to the Secretary of State, with, in all, four Minutes upon it, one from the Viceroy and three from the Finance Member. As one of his reasons for differing from the Finance Member, the Viceroy wrote: "I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm. Most things that the Government of India do in the region of finance

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* See Legislative Assembly Debates, Vol. II, No. 21, 24th January, 1922, pp. 1842–1869.

† Par. 60, Fowler Committee Report.

are misrepresented; many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency. I think that we should be very careful about taking any steps that may seem to give ground for these charges."*

17. The Finance Member in Paragraph 26 of his first Minute said: "I do not lose sight of the fact that, however readily saleable our gold investments, they are not quite the same thing as actual gold, but holding such a sum as I contemplate in the actual metal, there would, under all conceivable circumstances, be plenty of time to effect gradual sales of the securities for the replenishment of the stock of gold, should the necessity arise."

18. In his final Minute, dated the 23rd of August 1900, the Finance Member recorded the fact that "the general question of the advisability of legislation affecting our exchange policy was discussed in Council, and the view was, I think, unanimously accepted that such legislation should, if possible, be avoided."

19. The Secretary of State, replying by his despatch No. 232 of the 13th of December 1900, said in Paragraph 3, that he was fully convinced of the advantages of maintaining a special gold reserve, and that, "in order to mark the primary object of its formation, ... the title to be assigned to it should be the Gold Standard Reserve." In paragraph 4 of his despatch he parenthetically observed that the word "gold" used in Paragraph 60 of the Fowler Committee Report appeared to be interpreted by Sir Edward Law as including "securities saleable for gold," and in Paragraph 5 he gave his decision: "This proposal is in harmony with the 60th paragraph of the Report of the Indian Currency Committee, and I fully concur in the principle which it enunciates."

20. Paragraphs 6 and 7 of the despatch lay the foundation of the departure from the Fowler Committee Report and need to be quoted in full here.

"(6) In order to ensure the due application of the gain made through the coinage, it is advisable that your Government should once in three months make up an account of the receipts and charges, and should forthwith remit the net profit to be held by the Secretary of State in this country.

"(7) It does not appear necessary to specify precisely in what gold securities the reserve shall be invested, whether in Consols or India Stock, or in any other manner. This will be at the discretion of the Secretary of State in Council from time to time, and the result will be periodically reported to the Government of India, and published in its Gazette."

21. Thus, while the question in dispute referred to the Secretary of State actually concerned the Paper Currency Reserve, he gave a decision regarding the Gold Standard Reserve, and the interpretation put on the word "gold" in Paragraph 60 of the Fowler Committee's Report was 13 years later a subject of close examination of the India Office representative before the Chamberlain Commission.

22. On the 7th of December 1906, the Secretary of State telegraphed to the Viceroy, with reference to the latter's information about extreme stringency and the possibility of serious panic in India, that "for various reasons I wish to avoid addition of gold to Currency Reserve in London. This would, for example, entail diminution of reserve of Bank of England and, by its effect on discount rates in London, would probably interfere with arrangements for renewing debentures of Guaranteed Railways maturing in December."

* Par. 4, Viceroy's Minute.

Diversion for Railway Purposes.

23. In July 1907, the Secretary of State decided that £1 million out of the profits on coinage might safely be diverted from the Reserve to be utilised on railway capital expenditure, as recommended by a Departmental Committee on Indian railways. The Government of India, in their despatch No. 296 of the 8th of August 1907, Paragraph 3, observed as follows:—

"From the report of your announcement in Parliament, we understand that on the advice of the Committee which was recently appointed to consider the question of railway finance, you have decided on a different course. We do not therefore propose to trouble you with the reasons which led us to the conclusions outlined above. We accept your decision, although some of us entertain doubts as to its expediency, and although we should all have preferred if it had been possible to give the commercial community in India an opportunity of stating their opinion regarding the diversion of coinage before final orders were issued."

Employment in temporary Loans.

24. In 1908, the Secretary of State by his telegram of the 2nd of April, intimated to the Government of India that the balance of the Gold Standard Reserve would be "lent on security on short temporary loans."

The Government of India's protests.

25. In April 1909, the Government of India renewed their appeal to the Secretary of State that the whole of the profits on coinage should be devoted to the Gold Standard Reserve and should be held in liquid gold. In their despatch No. 89 of the 1st of April 1909 they emphatically pointed out that any failure to fulfil the "definite pledge of our active support of the Gold Standard, ... either through the exhaustion of the reserve or for other cause, would shake the public confidence in our Currency policy to a degree which it would be difficult to estimate." (Paragraph 2.)

26. In Paragraph 3, they said that the "Gold Standard Reserve . . . is the recognised fulcrum of our whole currency system; and its strength is of vital importance both to Government and to the merchants, capitalists and investors who are associated with us in the development of India."

27. In Paragraph 4, they expressed doubt whether the "Gold Standard Reserve has ever yet approached the position which it ought to occupy." They further drew attention to the fact that, between November 1907 and January 1909, they lost £15 million of gold, and pointed out that "this is the result of a little more than a single year of adverse conditions and of a famine which was more restricted in its area than is frequently the case with similar calamities." With these preliminary observations, they submitted their first definite proposal for the Secretary of State's consideration.

28. With regard to the Secretary of State's decision to divert £1 million from the Gold Standard Reserve to railway capital expenditure, in Paragraph 5 they said:—

"We deprecated the decision at the time, but accepted it and have defended it against an outburst of public criticism in India. You subsequently determined that half the profits on the coinage of rupees should be consistently diverted in the same manner, and this course has accordingly been followed so long as any profits accrued. We would now ask you, however, to reconsider your decision, and to allow the future profits on coinage to pass into the Gold Standard Reserve without deduction, until the Reserve stands at a much higher figure than it has yet attained. We do not yield to your Lordship in our desire to press forward railway deve-

lopment in India; but we are convinced that the stability of our currency is a far more vital factor in the welfare of the country than the pace at which our railway facilities are extended. It is highly significant that this view is so widely shared by the mercantile community, in spite of the strong personal interest which attaches large sections of them to an active railway policy. We have already forwarded to you the expression of opinion by the Bombay Chamber of Commerce on the subject; and we now submit, for your information, copies of similar protests which we received from the Chambers at Calcutta, Madras, and Karachi. The position has again been dealt with, in a similar strain and with much conviction, by the Chairman of the Bombay Chamber, whose remarks on the subject at the Chamber's annual meeting on the 3rd instant have met with the general approval of the business public in India. We find ourselves in entire accord with these views, and we would earnestly press upon your Lordship the impolicy of retarding the growth of the Reserve when circumstances again permit us to renew the coinage of rupees."

29. In Paragraph 6 they submitted another aspect of the Gold Standard Reserve, in the following words:—

"Another aspect of the Gold Standard Reserve which attracts much criticism in India is the form in which it is held. When the Reserve was first established, it was the desire of Lord Curzon's Government that it should be kept in liquid gold in India. Your predecessor decided to the contrary, and it was invested in gold securities, which have lost appreciably in value. We are not prepared to revive the proposal that the gold should be held in India, though it is our duty to refer to the very strong feeling in favour of such a course which prevails in this country."

30. In Paragraph 7 they pressed for holding a substantial part of the Reserve in liquid gold, and the whole of this and the following Paragraph can usefully be quoted here:

"But, while we do not press for any change in the location of the Gold Standard Reserve, we attach very great importance to our second proposal, that a substantial part of the Reserve should be held in a liquid form. This seems to us to be necessitated both by expediency and on broader grounds of policy. We do not lay stress on the loss that has occurred in selling the Reserve securities during 1908; those losses have been more than covered by the accrued interest. What we fear is a combination of events which would demand the employment of the Reserve at a time when large sales of British Government securities in London would be contrary to Imperial interests. Such a combination is by no means inconceivable; and even in less serious situations the free employment of the Reserve might be gravely hampered by the form in which it is now held. The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India; and it it pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion. We think these views deserve every consideration, and we are satisfied that it would have an excellent effect if your Lordship decides to refrain from further investment of the Reserve gold. That such a course is right on general grounds we consider to be beyond question. Our strength in combating a low exchange depends, broadly speaking, on our ability to reduce the supply of rupees and to augment the supply of gold. If we can do both simultaneously, our intervention is the sooner effective. At present, we can only reduce the supply of rupees; for our gold has already been put on the market; and all that is meant by realising it is the transfer of certain securities from Government to another holder. Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities.

In the former case, the Indian Government might in emergency be powerful to help the market; in the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would therefore urge on your Lordship the propriety of building up a substantial share of the Reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London.

"We have intentionally avoided any general review of our currency policy. Our object for the moment is to place before you the views which are held in India regarding the Gold Standard Reserve, and the convictions that have been forced upon us by the experience of the last year. The two modifications in procedure which we recommend are in entire harmony with the declared policy of supporting the Gold Standard, and they will go far to secure public confidence in our intentions."

The Secretary of State's Reply.

31. The Secretary of State in his despatch of the 2nd of July 1909 admitted the importance of the subject of the Government of India's despatch of the 1st of April. But he refused to accede to the Government of India's request, "in view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in gold," and he accepted "the responsibility" for realising gold securities instead of gold "on occasion arising."

32. In Paragraph 10 of his despatch, he said as follows:—

"The consideration dealt with in the preceding paragraph is the most important of those mentioned by you in favour of your proposal, but there are certain others which should be noticed.

"One is that it is the desire of Lord Curzon's Government that the Reserve 'should be held in liquid gold in India' and that Lord George Hamilton overruled their recommendation to this effect, and decided to hold the Reserve in securities. I find, on referring to the correspondence which took place when the Reserve was established, that Lord George Hamilton understood the Government of India to desire that the Reserve should be held either in gold or in securities saleable for gold, or partly in one form and partly in the other. Whether his understanding of their wishes was correct or not, it is clear that it would not now be reasonable to attach more importance to suggestions regarding the management of the Reserve which were made before its establishment than to the results of the experience, extending over more than eight years, which has since been gained.

A second argument, to which you refer with approval, is that 'other countries are careful to retain the ultimate foundation of their credit in bullion.' I understand that these words are meant to convey that Governments which issue notes encashable in gold or silver on demand are in the habit of holding gold or silver in order to provide for the encashment. This remark is accurate, except so far as it needs to be qualified by a reference to the large fiduciary issues of most Governments; but it has little, if any, bearing on the question of the most suitable form for the Gold Standard Reserve. That Reserve will presumably be used in future, so far as it is used at all, for defraying the Home Charges when Council bills cannot be sold at or above the gold point, or for meeting London bills drawn by the Government of India. For either purpose easily realisable securities or bank balances are as useful as gold, and there is therefore no advantage in holding the latter.

"A third argument used by you is that it is desirable that the Government of India, when combating a low exchange, shall be in a position not only to contract the circulation of rupees in India, which is done under the existing system, but also to expand the circulation of gold elsewhere simultaneously (the object of the expansion of the circulation of gold being presumably to stimulate trade throughout the world and thus to

increase the demand for Indian produce), and that the latter operation is not within your power unless the Gold Standard Reserve is held in gold. I am not disposed to think that the release of such gold as might be held in the Gold Standard Reserve would have an important or speedy effect in creating a favourable balance of Indian trade; but, if it is to be held that this result would follow, it must equally be held that the previous accumulation of gold in the Gold Standard Reserve would, so long as it was proceeding, have an unfavourable effect on the Indian trade balance; and it would certainly injure India's power of borrowing in the London market."

Renewed Protests.

33. In Paragraph 11 he pointed out that in eight years there had been a net gain to the Gold Standard Reserve, after deducting the loss through the sale of securities, of £1,371,063.

34. In September, 1909, the Government of India, by their despatch No. 236, of the 30th of September, made a rejoinder to the Secretary of State's despatch. In Paragraph 4 they expressed their regret at the Secretary of State's decision in the following words:—

"On the second point your Lordship has not seen your way to accept our proposals. Holding that, for the purpose of maintaining exchange, securities capable of easy realisation are as efficient as liquid gold, while they are at the same time producing interest to the credit of the Gold Standard Reserve, you have declined to do more than keep a sum of £1,000,000 of this Reserve uninvested, such amount being either lent from time to time for short periods, on approved security, to approved institutions and firms, or deposited at interest with banks of high standing. We accept this decision with regret. While we admit the force of your argument in normal circumstances, and recognise that existing arrangements adequately met the requirements of the late crisis, we would once more emphasise our conviction that it is necessary to provide, and to assure the public that we do provide, against a situation in which the securities of the Gold Standard Reserve would not be easily realisable or realisable only at heavy loss." They added, "accepting, however, as we must, your decisions," they desire to discuss the methods to be adopted in meeting exchange difficulties. They suggested a holding of gold in the Paper Currency Reserve in India, and the limitation of Council Drafts so as to build up the gold resources of the country, as already mentioned in Paragraph 8 above.

Diversion of Gold from India.

35. The Secretary of State rejected this request of the Government of India, and, not content with such rejection, he observed in Paragraph 3 of his despatch, No. 25 of the 18th of February, 1910, as follows:—

"As the stock of gold held by you now exceeds £5,000,000 I propose to revive shortly the arrangements which were in force in 1905, 1906, and 1907 for the purchase of gold in transit to England."

In those years, gold destined for India was bought in transit by the Secretary of State from the Exchange Banks, and diverted to England by Council Drafts which carried special rates thus to attract gold (*see* Qs. 910-940, Chamberlain Commission).

36. This is the history of the Executive action taken to carry out the policy recommended in Paragraph 60 of the Fowler Committee Report regarding "gold" reserves, which was accepted by Her Majesty's Government and the Government of India.

(iii) Free Inflow and Outflow of Gold.

37. In Paragraph 54 the Fowler Committee said that they looked forward "to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold."

38. In Paragraph 8 of his despatch, No. 140 of the 25th of July, 1899, the Secretary of State communicated to the Government of India as follows:—

"I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserve in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for foreign remittances whenever exchange falls below specie point, under such conditions as the circumstances of the time may render desirable."

39. On the 20th of November, 1907, when the American crisis led to a sudden demand for remittance of gold to London, the Viceroy applied to the Secretary of State for authority to refuse gold for export to the Exchange Banks, since such gold could at that time only be drawn from the currency gold in London. By his telegram of the same date the Secretary of State gave the Government of India authority to inform the Exchange Banks of their inability to accede to their application. This authority was not exercised; but, on the first demand for gold for foreign remittances, the "free outflow of gold," recommended by the Fowler Committee, was severely restricted.

(iv) Coinage of Rupees.

40. Regarding the coinage of rupees, the Fowler Committee had recommended that "Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public." (Paragrapah 60.) The unfortunate coincidence of a severe famine with the commencement of the introduction of the Fowler Committee's recommendation necessitated coinage of rupees until the time when the after-effects of the famine had passed. But when, in 1909, the Government of India reported that sovereigns were in demand and at a premium,* the refusal of the Secretary of State to permit a substantial holding of gold in India, in order to make a gold currency possible, marked a deliberate departure from the Government's policy as laid down in 1899. Lord Farrer and Lord Welby, in their supplementary minute to the Herschell Committee Report, Paragraph 15, emphasise the importance of this part of their recommendation (subsequently accepted also by the Fowler Committee) in a remarkable manner:—

"Under these circumstances, we could not join in the recommendation contained in the Report, without at the same time recommending that the Government of India should, in view of the ultimate adoption of the whole of their plan, be prepared to secure the convertibility of their token silver currency, and should, with that object, accumulate a sufficient reserve of gold."

(v) Position in 1913.

41. When, therefore, the Chamberlain Commission was appointed by Royal Warrant dated the 17th of April, 1913, the position was as follows. The Government of India were committed by Statute to a gold standard, and by the acceptance of the Fowler Committee's recommendations (Paragraph 54), to a gold currency, based on the principles of the free inflow and outflow of gold. The main departures from the

* Vide Par. 8 above.

important principles of the scheme were made under orders of the Secretary of State, against the repeatedly expressed, and, indeed, tenaciously followed-up protests of the Government of India, who had the backing of the commercial community in India in that period. So apprehensive were the Government of India and the Secretary of State of the effect of these departures from their accepted currency policy, that not less than three times did they enjoin secrecy with regard to their decisions and to breaches of the officially accepted policy.

The following are instances:—

(1) The decision of 1900 to invest the Gold Standard Reserve in securities. (*Vide* Paragraph 18 above.)

(2) The correspondence of 1908-9 regarding the gold reserves, the gold currency and the limitation of sales of Council Drafts. (*Vide* Paragraph 9 above.)

(3) The decision of 1902 to abandon a gold mint. (*Vide* Paragraph 6, "(7)" above.)

(vi) Subsequent Enquiries.

42. At this stage the Chamberlain Commission was appointed. The terms of reference to that Commission include, "the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898."

43. The Commission submitted their Report towards the end of February, 1914; but, owing to the outbreak of war less than six months later, it could not be considered either by the Legislature or by the public of India.

44. On the 30th of May, 1919, the Secretary of State ordered a further enquiry and appointed the Babington-Smith Committee, who were directed in their terms of reference to make recommendations "ensuring a stable gold exchange standard." This change from a gold standard to a gold exchange standard was in absolute contravention of the currency policy officially adopted in 1899, binding on the Government and the country, and still existing as the recognised monetary system of India. It is unnecessary to notice here the recommendations of that Committee.

The Position To-day.

45. The position therefore to-day, as I view it, is that the Government and people of India stand committed to the principles recommended by the Fowler Committee and adopted by the Secretary of State and the Government of India.

(vii) The result of Departures from the Accepted policy of 1899.

46. The reason why I consider it necessary to give a fuller narrative of Indian Currency history between 1899 and 1913 than my colleagues have done in the Report is, that the correspondence between the Government of India and the Secretary of State for India conclusively shows that the developments in the currency policy of India since 1899 were not justified by the wishes of the Government of India or by the requirements of the people as expressed by that Government. These could all have been met by action in accordance with the policy approved by the Secretary of State and the Government of India. I think it my duty to state the facts bearing on this aspect as they appear in the official correspondence, and I believe that such a presentation of the history of the Indian currency system is material to the recommendations made in the Report, and necessary for a due appreciation of the reasons of my dissent.

47. Many of the recommendations accepted by the Secretary of State and the Government of India in 1899 were departed from by Executive action. It may be asked whether these departures were detrimental to the interests of India. Apart from monetary profit or loss, the development of a currency system different from the one indicated by the Government's acceptance of a policy is undesirable in itself. When such a development is effected without the knowledge of the people most concerned, it becomes a real danger. I do not wish to criticise this aspect further, but will now mention the material loss which India has suffered by these departures:—

(a) It has involved the circulation of a very large number of token coins in India which could not be converted into international money, and, indeed, have proved to be a source of embarrassment to the Government in periods of weak exchange. This led to the unparalleled difficulties of the Government of India in 1918, and necessitated the purchase of large quantities of silver at abnormally high prices involving a correspondingly heavy loss on the Indian Exchequer.

(b) It has locked up the gold reserves in a form which admittedly involves difficulties in realising them.

(c) It has been the cause of grave misunderstandings between the Government of India and the public in India, misunderstandings for which the Government cannot possibly be blamed, and which can only be regarded as natural, and inevitable under the circumstances, on the part of the people of India. The policy of secrecy adopted has aroused serious distrust in their minds of the system as a whole. This distrust having continued over a period of a quarter of a century cannot be removed without whole-hearted measures. It is true that the policy adopted has earned for India a certain amount of interest on her reserves. It is stated* that, up to the 31st March, 1925, the net profit on investments has been £17,962,466 in interest and discount, after allowing for losses due to depreciation in value. The loss on sales of Reverse Bills in India exceeds Rs. 22 crores.† Besides this, one has also to take into account the effect produced on the public mind by the inability of the Government to realise at critical junctures the securities in which the reserves have been locked up.

The Secretary of State's object.

48. The late Sir Lionel Abrahams, who was examined at some length by the Chamberlain Commission, gave his reasons for every step that was taken. It is not necessary for me to go into the details of this explanation. The one outstanding impression that it leaves on my mind is that the Secretary of State was bent on earning for India all the revenue that he could by way of interest on the Reserves without deliberately breaking any existing statute. Indeed, there was, and is still, no statute to break. He continued to make investments in securities, instead of keeping the reserve funds of India in gold. The object that the Secretary of State had in view—the maximum financial advantage to India—was unobjectionable *per se*; but it was energetically pursued, against the representations of the Government of India, with complete disregard for the stability of the Indian currency system and the confidence which would have resulted from a substantial holding of liquid gold which was definitely prescribed and accepted. Sir Lionel Abrahams himself admitted in reply to Question No. 833 that "at certain times the markets in London for the sale of securities are extremely difficult."

* See p. 20 *East India : Accounts and Estimates.* Cmd. 2498.
† See p. 155 Council of State Debates, Vol. III., No. 14.

The Attitude of the Bank of England.

49. Another witness before the Chamberlain Commission. Mr. Clayton Cole, till then Governor of the Bank of England, protested against the disturbance caused by the loaning of the Indian (Currency) Reserves in London. He said in reply to Question 3348: "I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade. The loans in the market of the Indian Government are very large. I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately 11 millions. That is money which, in the London money market, you can hardly describe as good money, because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market. The India Office lend the money at the best rate they can get, quite independent of what I call the considerations affecting the London market proper; therefore, that money may be lent, and is at times lent, in a way which is disadvantageous certainly to the Bank of England, which has to look after the gold reserves of this country." Such was the attitude of the Bank of England towards money lent in the London market to earn interest for the Reserves of India, a matter which naturally aroused suspicion in India.

II.—A GOLD STANDARD FOR INDIA.

50. The Fowler Committee recommended, and the Government adopted, a gold standard, based on gold reserves and a gold currency, as the currency system of India. I do not think that it is possible to improve upon the ideal of a gold standard based on gold reserves; and my colleagues agree in this. But it is now contended that since 1899, when the Fowler Committee reported, modern monetary practice has made a considerable advance, and that metallic gold need not form so large a part of the currency reserves under a real gold standard to-day as was believed to be necessary 27 years ago. We have, however, always to keep in mind the special circumstances of India. She has to-day sterling and rupee securities equal to about four and a half times the value of her gold coin and bullion in reserve. It is neither feasible nor desirable that the sterling securities should be realised and converted into gold forthwith, or in any manner other than the safest and most gradual to the markets of the world. The proportion of gold to securities in the currency reserves, set out in Paragraph 145 of the Report, demonstrates the necessity of the free inflow of gold into India being permitted in the normal course.

The importance of the free inflow of gold.

51. It has, however, been claimed that for the speedy reconstruction of the currency systems of other important countries disturbed by the War the greatest possible economy should be exercised in drawing on the world's stock of gold. The co-operation of these other countries in this connection, either with each other, or with India, is, however, neither assured, nor within sight, so far as I am aware; each is pursuing its individualistic national policy. If at any stage an international agreement should be framed for the economical distribution of the world's gold supplies, I am confident that India would be prepared to exercise self-denial in her gold requirements in proportion to that of other countries whose currency reserves were parallel to her own. But it is of paramount importance that any regulation of the inflow of gold should never be attempted by executive action, or by the currency authority. The main principles of the gold standard should be embodied in statutes, and

varied, if necessary, only by amendment to such statutes, i.e., with the fullest publicity and the concurrence of the Legislature. India is fully alive to the commercial importance of sound monetary systems in all the principal countries, and given the safeguards I have indicated, will always be ready to play her part in the proper co-ordination of the monetary policy of the world. On the other hand if any discretionary power vested in the currency authority* is used to interfere with the free inflow of gold, without legislative sanction, certainly for the next few years at least, the old suspicions regarding the currency policy will be revived, and the miasma of distrust, which we are anxious to dissipate, will be raised anew.

52. Non-interference with the free inflow of gold into India, except with due publicity and the concurrence of the Legislature, is, therefore, to my mind of paramount importance. I regard this as the foundation of the Indian currency system we are recommending and as the most vital factor in ensuring the fullest confidence of the people in the policy adopted. Confidence is one of the two essential desiderata in any reform of the currency system; and this view has the support of Sir Basil Blackett, the Finance Member. Subject to the condition outlined above being unequivocably guaranteed, I am in agreement with the gold bullion standard as recommended by my colleagues.

Demonetisation of the Sovereign.

53. My colleagues regard the demonetisation of the sovereign and the half sovereign as a necessary part of that standard. The sovereign and the half sovereign are the only gold coins legally current in India since 1893. I regret that I am unable to appreciate the necessity of this recommendation. I am not aware that any other countries, with a gold standard, and a central bank as the currency authority, have found it necessary to demonetise their gold coin. Indeed, several witnesses in London have expressed doubts whether either England or America would be prepared even to consider the adoption of such a course. But as nine of my colleagues are convinced of the necessity of demonetising the sovereign and the half sovereign as essential to the establishment of a gold bullion standard, I am prepared to view with diffidence by inability to see eye to eye with them, and do not press my objection beyond recording my own opinion.

My colleagues hope that when the gold reserves of India are adequate, the people of India may not want a gold mint. I share their hope. But if when that stage is reached other important countries have not demonetised their gold coin, then we must, human nature being what it is, be prepared to find the India Legislature asking for a gold mint, though, in all probability, gold coin will be as little used in India then as it now is in the West.

A PROPOSED SCHEME FOR A GOLD CURRENCY.

55. I think it necessary to record the very laudable departure made by Sir Basil Blackett in the history of the Government of India, by appearing before us personally at the very start of our deliberations to give us the benefit of his expert knowledge and experience of the requirements of India, and his own views as to the most suitable currency system for the country. He also allowed two important officers of the Finance Department of the Government of India to appear before us in their

* As recommended in Pars. 104 and 166 of our Report. *Vide* Despatch No. 51, dated 24th April 1914, from Secretary of State to Government of India, Enclosure: "Note referred to in 4n"—Appendix 97.

personal capacity, and the difference in views expressed by him and by Messrs. McWatters and Denning only serves to show that the latter were expressing views without being trammelled by office or tradition.

Grounds for Rejection.

56. While I subscribe to the conclusion arrived at by my colleagues in regard to Sir Basil Blackett's scheme, I cannot but disagree with some of the reasons adduced in support of that conclusion. In the first place, I do not believe that the introduction of a gold currency can jeopardise the note circulation, except perhaps at the outset, when popular curiosity may create a certain amount of demand for gold currency. Such curiosity, however, would only be small in extent and temporary in duration. Instead of the replacement of notes by gold currency, as apprehended, the ready convertibility of notes into gold will, if anything, increase the confidence of the people in paper currency, and to that extent promote its circulation further. In the second place, I cannot agree with the observation that "the mere act of putting gold into circulation would not develop the banking and investment habit" in India. I agree with Sir Basil Blackett when he said that "the introduction of gold into circulation, although it is a wasteful and expensive system, is necessary in Indian conditions to inspire confidence in the people, and provide the stimulus which is badly needed for investment and the banking habit in India."

57. The two essential desiderata in any reform of the currency system of India are, according to Sir Basil Blackett, and as also accepted by my colleagues, "that the Indian people should have full confidence in their currency, and that the system should be reasonably intelligible to them." I have no hesitation in accepting Sir Basil Blackett's recommendation that the quickest and best method of ensuring this confidence is by making the internal currency absolutely convertible into gold coin at the will of the holder, as a necessary step "in the direction of the still more ideal form of currency, viz., an international Exchange Standard by which I mean a paper currency inconvertible internally, but freely convertible on a gold basis for external purposes."

58. It remains only to emphasise that Sir Basil Blackett has based his calculations of the cost of his scheme for a gold standard and a gold currency on assumptions which throughout have deliberately been made to err on the side of safety. The actual cost would, according to him, be considerably less than his estimate of Rs.1¾ crores per annum for the first five years and from Rs.61½ lacs to Rs. 112 lacs per year thereafter. The apprehension that the cost to India will be increased by an indefinite and an incalculable amount due to the replacement of notes by gold is, as mentioned above, groundless and need not seriously be considered.

59. The Fowler Committee had considered a suggestion made to it to borrow for the purpose of introducing a gold currency. But they rejected the suggestion. There may be people to-day anxious to disregard the increased cost involved in the introduction of a gold currency by this method, particularly in view of the departures made from the Fowler Committee's recommendations, in preference to a gradual process of acquisition of gold. The only reply to such impatient enthusiasts would be the advisability of India doing nothing to retard the reconstruction of devastated Europe, if it can be avoided by a slower and more natural process of accumulating gold for her requirements.

60. All the same, even though I also cannot accept Sir Basil Blackett's scheme, I should like to record my sense of appreciation of the service that he has rendered to India in clarifying once for all, with the weight of his knowledge and experience, the fundamental requirements of her currency system.

III.—A CENTRAL BANK FOR INDIA.

61. The main question to be determined in regard to the authority to which shall be entrusted the working of the Indian currency system is whether, as recommended by my colleagues, a new Bank should be started, to exercise the functions of a Central Bank, or whether the Imperial Bank of India, which now performs some of the functions of a central bank, shall be developed into the Central Bank of India. The first scheme would involve the existence of two banks working side by side, each supported, wholly or in part, by the user of the Government balances. Whilst fully appreciating the reasons which have induced my colleagues to propose the creation of a new central bank, and recognising that this is perhaps the ideal system, in the special conditions of India I am of opinion that the ends in view, for as far ahead as we can see will be better served by developing the Imperial Bank of India into a full-fledged central bank. It is contended that if the Imperial Bank of India is developed into a central bank, some of its commercial activities will be curtailed. I apprehend no serious curtailment. On the other hand, I consider that such curtailment of the commercial business of the Imperial Bank which might follow its conversion into a central bank would conduce to the growth of new banking institutions, started by private enterprise in India. The bulk of the business laid down for the proposed new Central Bank can all be transacted by the Imperial Bank of India as the Central Bank. In some cases, it would only necessitate a change in the method or form of its business.

Suitability of the Imperial Bank of India.

62. It is said that if the Imperial Bank is developed into a Central Bank "the country would lose the benefit of the elaborate and wide-spread organisation which has been set up through the length and breadth of India to make available to the community the increased commercial banking facilities which are so urgently needed and to assist in fostering among the people as a whole the habit of banking and investment." I do not think that this necessarily follows; it is only necessary to mention the model of the Bank of France, which successfully discharges both the functions of a Central Bank and those of "the initiator of banking facilities" through more than six hundred branches. It is admitted that in India none but a State-aided bank has either found it possible systematically to develop branches, or is likely to be able to do so in future. The importance of spreading banking facilities throughout the length and breadth of the land needs no emphasis. Every previous currency inquiry has laid stress upon it; but from the time of Mr. Hambro's minute in the Fowler Report of 1899 till to-day the progress has been lamentably slow. The bank in India with the largest number of branches is the Imperial Bank; the number of these is only a hundred and sixty-four, yet witnesses of authority have stated that India needs thousands of branch banks. It is imperative that the Government of India should for years to come regard the rapid extension of banking facilities as an essential and urgent part of its financial policy. This can be accomplished only through the strongest banking institution in the country. No rival therefore should be allowed to impair the prestige and authority of the Imperial Bank of India, and no division of the Government funds between it and another institution should be permitted to restrict its capacity to open new, and even temporarily unprofitable, branches which are essential to the mobilisation of the resources of the country.

63. Moreover, I do not see at present, or for several years to come, any scope for two banks working side by side, one fully, and the other partially, with Government support. My colleagues recommend that

the new Central Bank should only re-discount drafts. The present currency and popularity of drafts in India is limited, though they are not by any means a new feature in its banking system. In fact, they have been used for generations; but, during the last 50 years or more the tendency has been to work on credits on the lines of the Scotch banks. The system recommended by my colleagues may perhaps be evolved in course of time; but for the present there will be comparatively few bills available to the Central Bank, and certainly fewer still, if any, with the signatures of banks. For, at the moment, the most active banks in India are the Exchange Banks which would go to the Central Bank to re-discount external bills—they do not discount internal bills, or *hundis,* to any appreciable extent—only when the Central Bank rate for re-discounting is lower than the discount rate in London. Judging by past experience, I do not foresee such a contingency; and I fear that the Central Bank may find very little business available to it, unless it competes with the Imperial Bank. My apprehension, therefore, is that either the Central Bank and the Imperial Bank will have to compete with each other, or the Central Bank will not find sufficient scope for business to employ its funds. Either result would, to my mind, be undesirable. My question, therefore, is: Why multiply, if it can be avoided, institutions, supported by Government balances?

64. On these grounds, therefore, I recommend the evolution of the Central Bank from the existing Imperial Bank of India, instead of by starting a new bank in addition thereto, as recommended by my colleagues. This would necessitate restriction of the earnings of the Imperial Bank of India. Such a restriction would necessarily be confined to the present rate of dividend, as the minimum, because the Imperial Bank has been earning it for several years. Over and above that minimum the increased dividend should be limited to 2 per cent., on the lines recommended in the scheme outlined by my colleagues. Unless the shareholders of the Imperial Bank agree to such restriction of their dividends, there will, of course, be no alternative left but to start a new Central Bank.

IV. STABILISATION OF THE RUPEE.

65. My colleagues recommend that "the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1*s*. 6*d*. for the rupee." The main grounds on which this proposal is made is that one shilling and sixpence is the *de facto* ratio, and that prices, wages, contracts and public finances, in other words, conditions generally, have either substantially adjusted themselves to it, or "the least injury will be done to all interests by adhering to that rate." I am unable to accept any of these premises, nor the conclusion it is sought to draw from them.

(i) The De Facto Ratio.

66. The legal standard of money payments in India recommended by the Herschell Committee in 1893 was one shilling and fourpence to the rupee. That standard was accepted by the Fowler Committee in 1899, and officially adopted by the Government of India. It remained the effective standard until the 28th of August 1917, when, in consequence of the abnormal rise in the price of silver caused by the War, the Government of India raised the rates for the sale of Council Drafts to correspond roughly to the price at which silver for coinage could be bought. The Babington-Smith Committee recommended, in their report dated the 22nd of December 1919, that an entirely new ratio of 2*s*. gold to the rupee should be established. The Government of India, despite earnest entreaties in the Imperial Legislative Council, passed the legislation necessary to establish the rupee at 2*s*. gold in September 1920, when the actual rate was 1*s*. 4$\frac{5}{16}$*d*. gold, and gold

prices were slowly, but unmistakably, falling. This rate, which was placed on the Statute Book, was neither the *de facto* rate, nor was it warranted by world conditions. The operations undertaken to establish and maintain this unnatural rate were:—

(*a*) Sales of Reserve Councils, £55½ millions.
(*b*) Deflation in India to the extent of Rs.35 crores.

The Government of India dared not prosecute the experiment after these operations. The attempt to stabilise the rupee at 2*s.* gold was adandoned; and the value of the rupee was allowed to adapt itself to market conditions without any further attempt artificially to control it. India reacted to the violent fluctuations in prices in other parts of the world, and the rupee varied from 11$\frac{5}{32}$*d.* to 1*s.* 3⅞*d.* gold, from August 1921, to September 1924.

The Opportunity of 1924.

67. When, in September 1924, the rate was approximately 1*s.* 4*d.* gold (it ranged during the month between 1*s.* 5½*d.* and 1*s.* 6*d.* sterling), suggestions were made officially to the Government, in the Legislative Assembly, to restore this ratio to the Statute Book, in place of the fictitious ratio of 2s. gold. The Government of India declined to favour these proposals. Their telegram of the 11th of October 1924 (when exchange was about 1*s.* 4½*d.* gold) to the Secretary of State shows that their policy then was to look for, in their own words, "a permanently higher rate than 1s. 4*d.* gold." Subsequently, when in April 1925 the pound sterling reached gold parity, the Government of India were able to talk* of this new ratio as 1*s.* 6*d.* gold, instead of 1*s.* 6*d.* sterling. The unavoidable conclusion is that the Government of India could have stabilised the rupee at 1*s.* 4*d.* gold in September 1924, thus restoring the long-established legal standard of money payments, if it had chosen to do so.

How the rate of 1*s.* 6*d. was reached.*

68. It has further to be considered how the rate of 1*s.* 6*d.* sterling was attained. The pre-war average expansion of currency in India was over Rs.20 crores per annum. During the last four years the net expansion or contraction has been as follows:—

In Crores of Rupees.

Year.	Rupees and Notes.	Sovereigns.	Nett.
1921-2	− 1	+ 3	= + 2
1922-3	− 6	+ 9	= + 3
1923-4	+15½	+ 7	= + 22½
1924-5	+ 1	+15	= + 16
			+ 43½ crores

The average expansion was therefore 11·12 crores a year. No wonder that the Imperial Bank of India rate went as high as 8 per cent. towards the end of 1923, and remained there for the first half of 1924, money in the chief trading centres of India being not available even at that rate during the period! Indeed, in the Viceroy's telegram to the Secretary of State, dated the 8th of October 1924, it is admitted "that the stringency in the market is the direct outcome of Government action in contracting

* Vide Appendix 98. Telegrams from Viceroy to Secretary of State dated 8th October 1924 and 11th October 1924.

currency, or rather in placing strict limits on possibilities of expansion . . . . We should have difficulty in refusing to provide more generously for additions to currency even if we wished to do so and there is serious risk of a financial crisis if we keep the screw on too tight."*

69. In fact, the efforts of the Government in preventing the normal expansion of currency had reached such a stage by October 1924 that the Secretary of State expressed himself as follows in his telegram† to the Viceroy, dated the 10th of October 1924:—

"It seems to me, however, that the vital consideration is not so much the actual level of exchange at the moment as the avoidance of such abnormal stringency as might threaten the financial and economic position."

Thus ratio of 1*s*. 6*d*. sterling was attained by official administration of the currency.

70. Whilst the currency was being administered in this manner, the natural corrective to rise in Exchange—the tender of gold at the Currency Offices—was made impossible for practical purposes by the retention of the fictitious ratio of 2*s*. on the statute book. The gold imported into India as genuine cover for her favourable balance of trade could not function as currency‡ and was a mere commodity. Under such conditions, and by such actions, it was within the power of the Government of India to establish almost any rate, and to maintain it for a time.

71. It might be contended that the ratio of 1*s*. 6*d*. has been established since October 1924, and that therefore it should be accepted as the *de facto rate*. Let us, however, be quite clear about this. Sterling was not on parity with gold in recent years till June 1925. From October 1924 onwards the rupee was not 1*s*. 6*d*. gold, but 1*s*. 6*d*. sterling. The rupee did not reach 1*s*. 6*d*. gold till June 1925, when sterling reached gold parity, and this rate has, therefore, now prevailed only for a year.§

72. Account must also be taken of the manner in which the rupee has been maintained at 1*s*. 6*d*., even in the very favourable conditions of the day, when India has experienced four good harvests in succession. From March 1926, there was a visible lull in exports, believed to be temporary and the rupee immediately sagged. Possibly this tendency was later aggravated by speculation but the subsequent history of the Exchange does not indicate that such speculation, if there was any, was a serious, or more than a temporary factor. The rupee was maintained at 1*s*. 6*d*. only by the deflation of the currency by Rs.8 crores, during April last, and by an offer by Government through the Imperial Bank of India to sell Reverse Councils at 1*s*. 5¾*d*. It has been argued that as Government used its resources to prevent the rupee from rising *above* 1*s*. 6*d*. sterling since October 1924, conversely, it was justified in taking administrative action to prevent it from falling *below* 1*s*. 6*d*.¶ I cannot accept this contention. Unlike other countries with their currency, Government deliberately rejected the opportunity of stabilising the Rupee at its pre-war ratio, when reached. Insisting as they did on retaining the legal fictitious ratio of 2*s*. Government prevented gold from being tendered at the currency offices in settlement of India's balance of trade. They thus exposed the Indian exchange to the risk of a rise to any height (*see* telegram from the Viceroy to the Secretary of State, of the 11th of

* See Appendix 98. Telegram from Viceroy, 8th October 1924.
† See Appendix 98. Telegram from Viceroy, 10th October 1924.
‡ See Appendix 98. Telegram from Secretary of State, 15th October 1924.
§ The rates ruling in September and October 1924, were as under :—
September : 1*s*. $5\frac{7}{32}$*d*. sterling = 1*s*. $3\frac{7}{8}$*d*. gold.
October : 1*s*. $5\frac{23}{32}$*d*. sterling = 1*s*. $4\frac{1}{4}$*d*. gold.

¶. Vide Appendix 98. Telegram from Secretary of State to Viceroy, 19th November, 1924.

October 1924), and it is a mercy that they did not select a higher rate than 1*s*. 6*d*. at which to intervene. That does not, therefore, afford any justification for administrative action to prevent the rupee from finding its natural level downwards. Indeed, if it is contended that the course of the rupee both ways can justifiably be regulated by manipulation, there was no necessity to refer to this Commission the question of the ratio which has been made a *fait accompli* by administrative action, as foreshadowed by the Secretary of State himself* in his telegram to the Viceroy of the 24th of September 1925. And, under the circumstances, this Executive action must be regarded as calculated to prejudice both our enquiry and our findings.

The Ratio and the Legislature: a Pledge.

73. It is true that there is no Statute governing the selling of Reverse Councils; but it will be recalled that after the fruitless and prodigious sales of 1920, Sir Malcolm Hailey, then Finance Member, gave an undertaking to the Legislative Assembly, on the 24th of January 1922, in the following terms:—

"But there may nevertheless still be some who fear that we may be intending to use these reserves artifically to raise exchange. Now the method by which we could utilise these reserves would, of course, be only that of re-opening the sale of Reverse Councils: and I can give the Assembly this much guarantee, at all events, that we should not re-open the sale of Reverse Councils in order to maintain exchange or to raise exchange in the manner suggested, without first coming to this Assembly."†

I consider that the recent Executive action in making an offer for the sale of sterling, as it is put, is nothing but an offer by Government to sell Reverse Councils, without using these words. The Assembly was in session till the end of the third week in March last, and exchange had shown signs of weakness even then. The Government of India in their telegram‡ of the 19th of March, to the Secretary of State, referred to what they called the recent "pronounced weakening of exchange" which "makes it desirable that we should be prepared for possibility that exchange may decline to lower gold point as determined on basis of 18*d*. gold rupee." The Government could well have approached the Assembly for their concurrence in offering to sell Reverse Councils, or to sell sterling, as it is put, on a contingency arising. In relation to the Assembly, therefore, this action on the part of the Executive was nothing short of a breach of faith.

74. It is important at this point to mention that the Legislature in India has shown a sustained interest in the question of a suitable ratio for India in place of the ineffective 2*s*. ratio. The late Sir Vithaldas D. Thackersey moved a resolution in the Assembly on the 24th of January 1922, and a full report of the debate raised on it is given in the Assembly Debates, Vol. II, No. 21. Sir Malcolm Hailey assured the mover of the resolution that "our power of rapid deflation is by no means considerable," and repeated that "when the Secretary of State sells Council Bills he ceases to have any power to raise exchange." Sir Vithaldas Thackersey, replying, expressed his fear that "when the opportunity occurred," the Secretary of State would use his power to manipulate exchange. Even with the guarantee that Reverse Councils would not be sold until the Assembly had been consulted, he urged that exchange could artificially be raised

* Vide Appendix 98. Telegram from Secretary of State to Viceroy, 24th September 1925.

† Vide Assembly Debates, Vol. II, No. 21, 24th January 1922.

‡ Vide Appendix 98. Telegram from Secretary of State to Viceroy, 24th September 1925.

if the Secretary of State refused to sell Council Bills when trade demand arose. Sir Malcolm Hailey reiterated that in the circumstances the Secretary of State's power to influence exchange was very small.

75. In March 1921, in a debate in the Council of State, the Financial Secretary to the Government stated: "If there is going to be any fundamental change, any new rate to be settled or any attempt at a permanent solution, neither the Government of India nor the Secretary of State will do this off his own bat."

76. Events have justified the apprehensions of Sir Vithaldas Thackersey. Deflation has not yet taken place by the methods which he feared, i.e., by sales of Reverse Councils or the withdrawal of the Secretary of State from the market. But deflation, and a consequent raising of exchange, has been accomplished by preventing the expansion of the currency to the extent normally required by India, as evidenced by the pre-war annual average of expansion. In fact, the Government of India themselves pleaded with the Secretary of State in Paragraph 3 of their telegram* to him of the 4th of November 1924, when they pressed for authority to prevent the exchange rising above 1*s.* 6*d.*, in the following words:—

> "We doubt whether sufficient weight has been given by you to the great improvement in internal economic conditions which has taken place in India, and to the check which in the last few years has been placed on the expansion of currency. In the last two years the raw materials of India have been in great demand, with the result that there has been a substantial trade balance in her favour."

In a word, India has been starved of her natural currency requirements and this operation, being equivalent to deflation, has been effective in raising the rate of exchange.

Authoritive Views on Artificial Measures.

77. Two distinguished authorities in the financial word, the Right Hon. Montagu C. Norman, Governor of the Bank of England, and Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York, have expressed their views on the question of the ratio as follows:—

Q. 14,385. *Sir P. Thakurdas*: It does not matter, then, in your opinion, whether the present rate is stabilised by natural means or by something which is artificial?—*Mr. Montagu Norman*: If I was aware of the existence of an unnatural position which had resulted from the adoption of exceptional measures, that might change my view; but, as I understand it, though I have not studied the question, it has been generally speaking by natural causes that the Indian exchange has come to be where it is, and to remain there over a long period; and I see no reason to advocate that it should be altered.

Q. 15,473. *Chairman*: Are you able to consider the matter from the point of view of the statistical position of the reserve?—*Mr. Benjamin Strong*: I should say that the three main considerations would be first, the domestic readjustments to a given price of the rupee; the extent to which any artificiality has entered into the management of the external price; and the size of the reserve.

I wonder if these two eminent authorities would have much doubt about the nature of the conditions under, and the measures by which the rate of 1*s.* 6*d.* has been attained and maintained.

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* Vide Appendix 98. Telegram from Viceroy to Secretary of State of 4th November 1924.

78. On all these grounds I am strongly of opinion that any recommendation to fix the rupee at 1*s.* 6*d.*, because it is the *de facto* rate, is not *per se*, entitled to the slightest weight. The ratio of the future must be decided on weightier considerations.

(ii) Adjustments to a 1s. 6d. Ratio.

79. The main point for examination is whether there are any economic adjustments to the current rate of Exchange still incomplete, and which, after stabilisation of the rupee at 1*s.* 6*d.* will involve a disturbance of existing conditions. Such an examination should be in the following directions:—

(1) Whether the adjustments are complete, and if incomplete, in what directions.

(2) In the latter case, the period required for complete adjustment.

80. No evidence has been forthcoming, even from experts, as to the time necessary in India for the essential adjustments to take place. Mr. Keynes, in a brochure issued when Great Britain returned to the Gold Standard, in April 1925, indicates that in a country like the United Kingdom, a period of about two years is necessary for adjustments to take place to a 10 per cent. variation in Exchange. If this is so in a country the bulk of the trade of which consists of exports and imports, compared with which, the internal trade is small, in the case of India, where the proportions are reversed,* the period must undoubtedly be longer.

81. The important directions in which adjustments have to be sought should include at least the following—

(I) Prices.

(II) Wages.

(I) *Prices: General Considerations.*

82. It is a historical fact that prices rise during wars, and gradually fall after peace. The Babington-Smith Committee was led into believing that prices would remain more or less on the high level at which they stood at the end of 1920; and that was an important ground on which they recommended a ratio of 2*s.* gold to the rupee. Since then, prices have fallen. The consensus of opinion, both in the United Kingdom and in America, appears to be that the present level of prices will at best only be maintained. Where a doubt about stability in the future was expressed, it was in the direction of a fall. No one has ventured to predict that gold prices will rise; the monetary reconstruction of European countries and their economic recovery, and the present isolation of Russia, are such important factors, that this is not apprehended.

83. For the purpose of this examination the prices that have to be taken into consideration are (1) prices of articles exported from India; (2) prices of articles produced and consumed locally; (3) prices of imported articles.

Articles of export.

Regarding (1) articles of export, the bulk of these have to be sold in competitive world markets, and their prices, governed by world prices,

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* *Vide* Appendix 26—Dr. Balkrishna's written statement, "Domestic trade *versus* foreign trade."

automatically adjust themselves, practically from day to day, to the prevailing rate of exchange. Even in the case of articles like jute, in which India enjoys a monopoly, there is an upper limit of price beyond which the effective use of substitutes is resorted to. If, therefore, the rupee is appreciated to a point at which, during the period of non-adjustment, the Indian cultivator cannot reduce the prices of exportable articles to the world level, he will miss the world market when there may be a demand for his produce. He must either sell his produce at once at a loss, or be forced to hold on for a better price, which, however, would expose him to the risk of having to sell his produce later at a time when the world's demand has been met from other sources, and consequently, to accept a still more unremunerative price. He *must* sell his produce sooner or later, for his holding power is low.* While, therefore, price adjustment in the case of articles of export must be complete at any moment, and at any rate prevailing, the Indian cultivator is exposed to this serious risk pending adjustments in *other* directions.

Produce consumed locally.

84. Regarding (2) Indian produce locally consumed, this is not nearly as sensitive to exchange fluctuations. The higher or lower purchasing power of the rupee in terms of gold should ultimately be reflected in the prices of these articles, but the adjustment is neither automatic nor speedy. For instance, if the price of wheat in the world market falls, wheat sells at a lower price for local consumption in India.. The great millets, Jowari and Bajri, consumed by the poorer classes in India, always sell at a price level below that of wheat. Should wheat fall so as appreciably to narrow the normal margin of difference, either the millets are sold more cheaply, or consumers may take to wheat. No one can say at what point this substitution takes place, and it is difficult to estimate the time or the extent of the narrowing of the margin between these staples. But it is beyond doubt that everything else, such as seasonal conditions, being normal, the reaction of prices of Bajri and Jowari to a fall in the price of wheat would take a considerable time

Articles of Import.

85. Regarding (3), articles of import, it is true that a higher exchange would make these articles available to the consumer in India at a lower rupee price. To that extent, the consumer benefits; but here the question arises as to the proportion of imports which are consumed by the masses of India. This has been given at various percentages of the total imports of India, the highest being 40 per cent. and the lowest 7 per cent. In the absence of official information, one can only name these two extreme estimates.

86. The conclusion to be drawn from these premises is that while adjustment in the price of articles of export to the rate of exchange is complete at any time, until the other adjustments are complete, the producer is exposed to serious risk of loss. For articles entering into the internal trade, the proportions of which are many times larger than the external trade, no reliable data are available of the adjustments that have taken place till now to the pre-war rate of exchange. These are only assertions without proof. Regarding imported articles, the benefit from a higher exchange is immediate; but the proportion of such benefit accruing to the masses is very small, estimates ranging between 7 per cent. and 40 per cent. of the imports.

* Compare Fowler Committee Report p. 25 middle paragraph, Minute of Dissent by Mr. Robert Campbell and Sir John Muir.

The Course of Indian Prices.

87. In the light of these general considerations, it is instructive to examine the recommendation that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1*s.* 6*d.* for the rupee. The chief reason advanced by my colleagues in support of this recommendation (Paragraph 176 of the Report) is their conviction that at the present rate of about 1*s.* 6*d.* "prices in India have already attained a substantial measure of adjustment with those in the world at large, and as a corollary that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid, and which would in the end be followed by no countervailing advantage." While recognising that "index figures are not an infallible guide, and that there are many directions in which they might lead one astray," they consider that such figures are "more reliable in indicating the trend of prices in each single country than in comparing the relative levels of prices in two or more countries."

The Arguments of my Colleagues.

88. Treating the statistics "in the most generalised way" they observe that during the eighteen months from December 1922 to June 1924, when the rupee was worth about 1*s.* 3*d.* gold, the rupee price level ranged round a mean of about 176; that in the succeeding year, when the rupee was rising to 1*s.* 6*d.* gold, the rupee price level fell below 160, since when, while the rupee has remained round about 1*s.* 6*d.* gold, the rupee price level has ranged round a mean of about 158, with recent tendency to fall in sympathy with world prices. They then proceed by means of a graphic representation (Figure 1) to show that prices in India in terms of *gold* have, since the middle of 1922, generally moved parallel to movements in world prices in terms of gold. This is, of course, as it should be; for after all, there is such a thing as a world price level measured in terms of gold, to which prices in any country, measured also in terms of gold, must in general trend correspond, if not in actual level. If Indian prices in terms of gold have moved approximately parallel to world prices in terms of gold, English prices in terms of gold have done the same. I shall therefore confine myself to movements in India rupee prices.

Sir Basil Blackett's Argument.

89. Sir Basil Blackett in the evidence that he gave before us on the 24th of November, 1925, also contended that "substantial equilibrium of prices had been attained" to a rate of 1*s.* 6*d.* because "British, American and Indian prices have come together at a figure about 160." (Q 27.) He added, however: "But I am not quite sure what value is really to be attached to any of these index numbers, and particularly to the Indian one. It is hard to be sure that it is completely valid. At the same time it does suggest that prices have now come together . . . You will see that there is a considerable fall in Indian prices under certain heads when you get into details." (Q. 27.)

90. The argument was that because the index numbers of wholesale prices, in India (in rupees), in the United Kingdom and the United States of America (in gold) were at the moment all at about the same level, Indian rupee prices had "generally speaking" adjusted themselves to 1*s.* 6*d.* If there is any value to be attached to index numbers—and Sir Basil Blackett is "not quite sure" what value can be attached to them—they lead to a very different conclusion.

The Course of Prices from June, 1925.

91. Early in June, 1925,* the rupee touched 1*s.* 6*d.* gold. The Calcutta index number for that month was 157. For February this year the number was 158, and for March 155. In between, it was 160 for July, 157 for August, 158 for September, 160 for October, 164 for November and 163 for December and January. In other words, after the rupee touched 1*s.* 6*d.* gold in June, 1925, for six months there was a progressive rise. (And even in March, 1926, the level was only two points lower than in June, 1925.) On the other hand, sterling reached its pre-war parity also in June, 1925. The index number of sterling prices for that month was 158. Since then it steadily fell to 149 in February, 1926. In other words, since sterling reached gold parity there was up to February, 1926, a fall of nine points in the British index number, compared with a rise of one point in the Calcutta number as between June, 1925 (when the rupee also touched 1*s.* 6*d.* gold), and February, 1926.

92. Taking Bombay prices, from July, 1925 (on the first of July the rate was 1s. $6\frac{1}{16}$*d.*), to February, 1926:

(1) Bombay wholesale prices fell from 158 to 152, i.e., 6 points;
(2) U.S.A. gold prices fell from 160 to 155, i.e., 5 points;
(3) United Kingdom prices fell:—
  (a) *Board of Trade*†—157 to 149, i.e., 8 points.
  (b) *Economist*†—165 to 154, i.e., 11 points.
  (c) *Statist*†—158 to 150, i.e., 8 points.

It would appear, therefore, that the fall in Bombay prices was due to the fall in gold prices themselves, and not to any adjustment of Indian prices to 1*s.* 6*d.*

93. The course of Calcutta prices in this period may perhaps be due to the predominance of jute and tea in the Calcutta index number, and to the marked fluctuations in jute during that period. Omitting these two commodities from the Calcutta number, the fall between July, 1925, and February, 1926, was 5·3 points, a figure which corresponds very closely to the fall in Bombay prices, and in gold prices themselves, and reinforces the conclusion that such a fall is no part of an adjustment of prices to the higher exchange rate of 1*s.* 6*d.* In other words, it cannot be contended that there has been any adjustment in Indian princes *since* the Rupee touched 1*s.* 6*d.* gold in June, 1925.

The Course of Prices from December, 1922, *to June,* 1925.

94. I shall now examine the contention in Paragraph 187 of the Report that the fall in rupee prices in the first half of 1925 represents "the tendency of those prices to adjust themselves to the rise in exchange."

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* (*a*) We had before us a statement from which I have taken the figures used by me in this note. The figures relied on by my colleagues are also based on the same statement. These are taken from the following sources:—

Dollar-Sterling Exchange rates from the London and Cambridge Economic Service Bulletin.

Rupee-Sterling Exchange rates from the average of the Daily Bombay quotations from the *Times*.

Rupee-Dollar Exchange rates from the Federal Reserve Bulletin.

United Kingdom wholesale prices from the Board of Trade Index Number. (1913=100).

United States of America wholesale prices from the Bureau of Labour Statistics. (1913=100).

Calcutta Index Number wholesale prices from the Indian Trade Journal. (31st July, 1914=100).

Bombay Index Number wholesale prices from the Labour Gazette. (July, 1914=100).

Starting from December, 1922, the point from which my colleagues begin their examination of the course of Indian prices, the gold parity of the Rupee rose from 95 in that month to 113 in June, 1925, the world gold prices were about the same level at the beginning and at the end of the period—to be exact. 156 and 157 respectively. On the rise of the gold parity of the Rupee during this period from 95 to 113. i.e., 19 per cent., adjustment of Indian prices to world prices, would in order to be complete have meant a corresponding fall of 19 per cent. in the Indian price level, i.e., a fall of 33·5 points in the Calcutta Index number which was 176 in December, 1922. The actual fall, however, was from 176 to 157, or only 19 points. This proves that the adjustment till June, 1925, was only partial. An examination of the Bombay Index figures lead to exactly the same conclusion. I have already explained, that the fall

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(b) I give below an abstract from this Statement for the months referred to in the Report and by me.

INDIAN EXCHANGE AND PRICES.

Month.	Exchange.						
	Dollar—Sterling Exchange.		Rupee—Sterling Exchange.			Rupee—Dollar Exchange.	
	$	% Gold Parity.	Sterling.	Gold.	% Gold Parity.	$	% Gold Parity.
				s. d.			
July, 1922	4·45	91·5	15·67	1 $2\frac{3}{16}$	90	28·89	89
December, 1922	4·62	95·0	16·00	1 $2\frac{27}{32}$	95	30·65	94
June, 1924	4·32	88·8	16·99	1 $2\frac{15}{16}$	94	30·49	94
July, 1924	4·37	89·8	17·19	1 $3\frac{1}{8}$	96	31·25	96
August, 1924	4·50	92·5	17·24	1 4	100	32·26	99
June, 1925	4·86	99·9	18·05	1 $6\frac{1}{16}$	113	36·48	112
February, 1926	4·86	99·9	18·19	—	114	—	—

Month.	Wholesale Price Indices.						
	U.S.A. 1913 = 100.	U.K. 1913 = 100.		Calcutta, 31st July, 1914 = 100.		Bombay, July, 1914 = 100.	
	Gold.	Sterling.	Gold.	Rupee.	Gold.	Rupee.	Gold.
July, 1922	155	160	146	181	163	190	171
December, 1922	156	156	148	176	165	175	164
June, 1924	145	163	145	176	165	185	—
July, 1924	147	163	146	179	172	184	—
August, 1924	150	165	153	180	180	184	—
June, 1925	157	158	158	157	177	160	—
February, 1926	155	149	149	158	180	152	—

(c) I have, however, not reduced the British and American figures to the July, 1914, base of the Indian Index numbers. For I am only concerned with the levels of the latter. Besides, as my colleagues have pointed out in para. 178 of the Report, "Index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries"; and, further, in para. 184 that the levels "may be influenced by factors (e.g. the base year chosen for the compilation of Index numbers) which are largely irrelevant for the present purpose, whereas the general trend of movement would remain the same whatever basis was chosen for the figures."

† 1913=100.

in rupee prices *since* June, 1925, was only a reflection of a corresponding world fall.

The Course of prices from July 1922 *to February* 1926.

95. I should, however, like to take the whole range of price movements from July, 1922, to February, 1926. The world price level was exactly the same, viz., 155 at the beginning and end of this period. The gold parity of the Rupee was 90 in July, 1922, and 114 in February, 1926, i.e., an increase of 27 per cent. The Calcutta Index Number was 181 in July, 1922, and 158 in February, 1926, i.e., a fall of 23 points. But on a 27 per cent. increase in the gold parity of the Rupee, a fall of 49 points was called for, to bring about complete adjustment of Indian to world prices. The actual fall, however, was 23 points. In other words, a fall of 26 points, or more than half the adjustment, was still to come in February, 1926, it being clear that recently "both rupee and world prices have been falling practically in unison," as stated in Paragraph 187 of the Report. Taking the average of the Calcutta and Bombay Index Numbers, instead of the Calcutta number alone, the July, 1922, average was 185, and that of February, 1926, 155. There has thus been a fall of only 30 points, against 50 (27 per cent. of 185) to be expected for full adjustment.

The Course of Sterling Prices.

96. It cannot, of course, be assumed that because the balance of adjustment has not yet taken place, India can permanently escape it. The experience of the United Kingdom shows that more or less complete adjustment must follow movements in exchange sooner or later. Taking the same period as I have in the preceding paragraph, the gold parity of Sterling stood at 91·5 in July, 1922, and almost at 100 (99·9) in February, 1926, i.e., a rise of 8·4. There has thus been an increase in the parity of the pound Sterling of 9·2 per cent. Sterling prices in July, 1922, stood at 160, and in February, 1926, at 149. I need not repeat that the world gold price level stood at 155 in July, 1922, and at the same figure in February, 1926. There has therefore been a fall of 11 points in Sterling prices, as against 14·7 (9·2 per cent. of 160) points that we should have to look for. And sterling prices have been falling further since February, 1926.

Conclusion as to Rupee Prices.

97. When it is remembered that commodity prices *follow* a movement in exchange, and that there is always a lag in Indian internal prices and a delayed adjustment to external factors, it must be admitted that the greater part of the general adjustment to 1*s.* 6*d.* by a fall, is still to come.

If Gold Prices Fall?

98. If the rupee is to be now stabilised at 1*s.* 6*d.* that fall will be aggravated if gold prices themselves fall from the present level. The evidence of the distinguished witnesses from America indicates that America is anxious to maintain the present level of gold prices; that a rise is certainly not to be looked for; if anything, a fall is not improbable. My colleagues themselves in Paragraph 36 of the Report refer to the apprehension of two distinguished experts (Professor Cassel and Mr. Joseph Kitchin) in this connection. If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall—the double effect of the operation of the present rate of 1*s.* 6*d.* and also the world fall. I cannot but contemplate such a prospect with very serious misgivings, for it will hit the Indian producer to an extent beyond his capacity to bear. In a word, it will hit, and hit very hard, four-fifths of the population of the country that exists on agriculture.

(II) WAGES.

99. The main classes of wage-earners to be considered are:—
(a) The agricultural labourer.
(b) The industrial labourer.
(c) The middle-class and clerical workers.

Agricultural Wages.

100. (a) The latest figures available with regard to agricultural labour are in a Statement* submitted to us by Mr. Gennings, of the Labour Bureau in Bombay. He says that in the various Divisions of the Bombay Presidency the increase in the wages of labour in urban and rural areas between 1913 and 1925 has been as follows:—

	Per cent.
Field labourer, urban areas	121
Field labourer, rural areas	106
Ordinary labourer, urban areas	104
Ordinary labourer, rural areas	86
Skilled labourer, urban areas	116
Skilled labourer, rural areas	109

In the absence of any other data, these figures may be taken as representing the general agricultural wage level in India, there being no evidence of a decline in wages from any other part of the country.

Industrial Wages.

101. (b) Regarding the industrial labourer, the figures submitted to us, are as follows:

Wages in the Bombay cotton mills are to-day 232 against 100 in 1914. In the Jute mills and the mines of Bengal, the figures are 150 against 100 in 1914. From no province in India did we receive even any suggestion that industrial wages had a tendency to *fall*.

102. It is instructive to examine how increases in wages have varied with the rise in prices since 1914. The following figures show the variations in the Jute Mills in Bengal.

Jute Mills in Bengal.

Date.	Index Numbers of Wholesale Prices in Calcutta (31st July, 1914=100).	Wages (1913=100).
May, 1918	173	110
April, 1919	190	110†
September, 1919	200	120
January, 1920	218	140
October, 1920	206	150
April, 1925	169	150

Regarding the Cotton Mills in Bombay, we have, unfortunately, no figures showing the increases given after 1914 and before 1921, when the full increase of 131 per cent. was given. I am not sure that the beginning of the increase in the wage of the cotton mill operative was not made before 1921. As, however, no figures for 1919 and 1920 are available, I am unable to give any definite comparison.

103. The above shows that the industrial labourer either did not press effectively for full compensation for the higher cost of living, or the employer delayed recognising the hardship of his employee. This

* Vide Appendix 49.
† See Appendix 99. (Letter from Messrs. T. Duff & Co.).

illustrates the lag in wages, and the very slight connection, over a considerable period of time, between variations in the cost of living and in wages.

104. But once an increase is given, be it in the permanent wage of the operative, or in the shape of a bonus varying with the earnings of the industry, the operative will not reconcile himself to any reduction in it on any account. A very pertinent example of this is what happened in Bombay when the bonus given to the operative in the cotton mills, because of the exceptional prosperity of the industry in 1921, was withdrawn in 1923, when that prosperity had definitely disappeared. The bonus was not an increase in wage, but was a special payment based on the profits of the year concerned. The equity of the withdrawal of the bonus could not be understood by the operative and a prolonged strike ensued. Similarly, in 1925, when the cotton mills in Bombay found that the cost of living had declined and they could not afford, owing to the mills having to work at a loss, to pay the full increase in wages sanctioned in 1921, there was another strike which lasted for 10 weeks, and came to an end only because the Government of India suspended the Cotton Excise Duty, thereby enabling employers to effect an approximately equal reduction in the cost of production, while maintaining the increase in wages. But for this, the strike would have been more prolonged.

105. These two examples show the inability of the Indian industrial wage earner to reconcile himself to any decrease in wage, even on the ground of the appreciation of the rupee in gold. What has happened in the case of the mill operative in Bombay has not been challenged as being likely to happen in the case of wage earners in any industry in any other part of India. It has been said that the cotton-mill owners in Bombay blundered in giving such a large increase as 131 per cent. over the prewar level of wage, and hence Bombay's anxiety to get the lower ratio of exchange. At best, this is a most uncharitable view of the Bombay millowners' attitude on this question. It is not contended that the exchange should be fixed at 1*s*. 4*d*. to help them over what some regard as an extravagant increase given by them. The increases given in other industries would be equally incapable of reduction without a bitter struggle with labour in those industries.

106. The publication by the Department of Statistics of the Government of India, styled "Prices and Wages in India," gives changes of wages in selected industries up to 1922. Unfortunately, the necessity for retrenchment in 1923 led to the discontinuance of this publication, but none of the industries dealt with in the last (37th) issue appears to have effected a reduction in wages up to that year. The various industries selected are as follows:—

Rice Mill, Rangoon.
Jute Mill, Bengal.
Tea Gardens, Assam.
Cotton Mill, Madras.
Engineering Workshop, United Provinces; (Some fall in 1922, owing to trade slump).
Cotton Mill, Cawnpore; (Bonus subsequently stopped).
Army Boot Factory, Cawnpore.
Woollen Mill in Northern India; (Wages of some Mistries reduced owing to low production, and in other cases on engagement of new hands).
Colliery, Bengal.
Paper Mill, Bengal.

We have had no figures regarding the present wages in these industries, but my private enquiries have elicited the information that no reduction has been made since 1922 in any of them.

107. It has not been suggested by any official witness that the Government either intend or would find it feasible to make any reduction in the

in relation to gold. With regard to their employees on the State railways, the rise in the average wages of the largest classes of labour in the North Western Railway Locomotive Workshops at Lahore was as follows:—

1914 = 100.	1922. Daily.	Monthly.
Fitters	218	245
Carpenters	181	204
Unskilled labourers	194	220

Clerical Wages.

108. (*c*) An official statement issued by the Bombay Labour Office in February 1926 gives the result of an investigation held into the wages of clerical workers in the City of Bombay in 1924. The averages given for each group into which the clerical service was divided for this purpose are as follows:—

	Percentage over 1914.
Railways and allied offices	78
Semi-Government Offices	81
Banks	79
Commercial Offices (about)	70

It has not been submitted to us by any witness that the rise of the rupee from under 1*s*. 4*d*. to 1*s*. 6*d*. during the last year has brought about any reduction in the wages of these workers.

Difficulty of Adjustment in Wages.

109. This confirms the general conclusion that the wages of manual labourers and of the lower ranks of clerical workers do not undergo a reduction in India, except when there is substantial unemployment or a redundant supply. The literate and comparatively educated classes seeking employment in clerical posts can reason, and perhaps reconcile themselves to changing conditions such as increase in the purchasing power of the rupee; but the class of labour which is illiterate, and therefore less capable of reasoning, is unable to reconcile itself to any reduction of wages, under any circumstances, without a bitter struggle.

Strain on Industry.

110. Industries generally in India are still suffering from the prevailing depression. An adjustment in wages to the 1*s*. 6*d*. basis, if it has to be enforced, will therefore entail a long and bitter struggle between Labour and Capital, with consequent disturbance in the economic organisation of the country. The desirability of avoiding such a strain on industry in any country is obvious. The anxiety of the Government to avoid having to reduce wages in factories and departments under their own control should be sufficient to convince them of the risk to which industrial development will be exposed if the adjustment of wages to the higher ratio is to be enforced.

Wages and Cost of Living.

111. It was contended by Sir Basil Blackett in his evidence before us that he recommended the ratio of 1*s*. 6*d*. in order to avoid having to face a demand for higher wages. If any reliance is to be placed on the cost of living index numbers it is seen that there is a margin between the existing Indian cost of living index number of 155, in March, 1926, and the rise of wages over the pre-war level. If the cost of living in India is likely to increase on a reversion to the 1*s*. 4*d*. ratio, at the most, it cannot exceed 12½ per cent. even assuming that adjustments to 1*s*. 6*d*. have fully taken place, and the wages earned by the three classes of labour referred to above show a margin to cover this, excepting in the case of the labourer in the jute mills and mines in Bengal. On the other hand, if internal prices have not adjusted themselves completely to the 1*s*. 6*d*. ratio, the rise in the cost of living, owing to the lower ratio of 1*s*. 4*d*.

being fixed, would not be as high as $12\frac{1}{2}$ per cent. But there again, owing to the absence of convincing proof, one is unable to arrive at a definite percentage of the increase involved by the adoption of a 1*s*. 4*d*. ratio.

Wages and Provincial Finance.

112. In paragraph 210 of their report, my colleagues quote from a letter submitted to us by the Madras Government, in which they deprecate any change in the currency policy "which would result in a further rise in prices, rendering a revision of salaries again necessary, which would in turn lead to the levying of additional taxation." I presume that the Government of Madras mean that these results would follow as if the ratio was fixed at a figure lower than 1*s*. 6*d*. In the first place, I may point out that no other Provincial Government has put forward any apprehensions of this kind. Even the honourable Ministers of the Madras Government have not endorsed these apprehensions, having restricted their concurrence to another aspect only of the reference made to them (*). I have dealt above with the merits of these apprehensions. If the Indian Civil Service is included in the fears expressed, it has to be borne in mind that when the Royal Commission on the Superior Services, presided over by Lord Lee, submitted their report, exchange was well below 1*s*. 4*d*. gold, and the increases given on their recommendations were certainly not based on a rate of exchange higher than 1*s*. 4*d*. gold

Conclusion as to Wages.

113. It must therefore be admitted that no adjustment either in agricultural, industrial or clerical wages has taken place, and none would hereafter, without a struggle. It is clear that there has been no reduction so far from the level of wages in 1921, when the rupee was below 1*s*. 4*d*. gold.

Wages in the United Kingdom.

114. In sharp contrast to this state of things in India is the variation in the rates of wages of labour in the United Kingdom. The only wage index that I understand exists at present for the United Kingdom shows variations in the rates of wages as follows:—

——	*Wages* (July, 1914 = 100).	Ministry of Labour, *Cost of Living Index* (percentage of pre-War).
1919—January	206	220
June	210	207
December	226	225
1920—January	229	230
June	261	252
December	276	265
1921—January	277	251
June	264	219
December	223	192
1922—January	217	188
June	197	184
December	178	178
1923—January	177	177
June	176	169
December	173	177
1924—January	173	179
June	$178\frac{1}{2}$	170
December	179	180
1925—January	180	179
June	181	173
December	180	175
1926—January to April (inclusive).	180	173—167

*Vide Appendix 66

Rates of wages of 11 classes of wage-earners, including those in sheltered and unsheltered industries are averaged in this index. (I am indebted to Professor A. L. Bowley, D.Sc., F.B.A., of the London School of Economics for these figures.)

The adjustment of wages to various factors, including exchange, is thus more or less automatic in the United Kingdom, and for all practical purposes wages are brought into line with the cost of living.

Foreign Competition.

115. Further, until adjustment is complete, a 1*s.* 6*d.* ratio presents the foreign manufacturer with an effective though indirect bounty of 12½ per cent., which will place a heavy strain on Indian industries nascent and established, and protected industries will consequently need a further 12½ per cent. countervailing protection, or assistance by subsidies.

(iii) STABILISATION AT 1*s.* 4*d.*

116. For these reasons I am unable to accept the proposal to legalise 1*s.* 6*d.* as the new standard of money payments in India, and recommend that the rupee should be stabilised at the rate which obtained for nearly 20 years, viz., 1*s.* 4*d.* to the rupee.

117. It might be asked why I recommend stabilisation at 1*s.* 4*d.* and at no other rate. I do so because I share the widely-held opinion that a country's standard of value should never be changed unless circumstances arise, permanent in their effects, compelling a change; unless, in other words, it is found that the ratio is absolutely unmaintainable, or unattainable after a fall. The period during which her "permanent ratio" was unmaintainable, was shared by India with almost every other country in the world, and was the sequence of a world convulsion which affected them all. The Babington-Smith Committee recommended a change in India's legal ratio under abnormal conditions. Its recommendation was put into force when no other country had undertaken the settlement of its monetary problems. Had the 2*s.* ratio not been put on the Statute under the conditions of 1920, and had the 1*s.* 4*d.* ratio been left undisturbed when the fall in world prices took place, I am convinced that the probability is that it would have been naturally reached once more. The fall under 1*s.* 4*d.* would have been temporary, and the rate would have found its natural level again under the conditions of 1923 and 1924 at the latest, as, in fact, it actually did. With a ratio of 1*s.* 4*d.* on the Statute, there would have been no possibility of the pre-war parity being exceeded, as gold would have flowed in at that point. I am anxious that the country should now at least be freed from the effects of the error of judgment of 1919-20, and of the artificial measures taken subsequently as its corollary.

118. Advocating, as I do, stabilisation at 1*s.* 4*d.*, on this fundamental consideration, I need hardly say that I cannot agree with those who protest that, in doing so, I am advocating a depreciation of the Indian currency. In fact, I urge that the artificial appreciation of the Rupee, represented by the 1*s.* 6*d.* rate, justified neither by India's circumstances nor by her requirements, should be eliminated and should in no way prejudice considerations determining her legal ratio.

(1) EFFECT ON THE FINANCE OF THE CENTRAL GOVERNMENT.

119. It is claimed that the loss involved to the Government of India Budget by stabilisation at 1*s.* 4*d.* as against 1*s.* 6*d.* will be as follows:—

(1) Revenue (in rupees):
- (1) General Budget: 3·16 crores.
- (2) Railway Budget: 1·01 crores.

(2) Capital Expenditure:
- Railways: 1·68 crores.
- Postal and Telegraph: 2½ lacs.
- New Delhi: Rs. 63,000.

I cannot but regard the remarks made by Mr. McWatters in the first part of paragraph 4 of his Note under "Stabilisation of Exchange," as

exaggerated. The Railway Budget is separated from the General Budget for purposes of taxation, and would not count, except to the extent of the division of surplus profits between the Railway Reserve Fund and the General Budget. The most serious item to be considered is the alleged gain from 1*s.* 6*d.* of Rupees 3·16 crores in the General Budget. As against this, there is to be put an increase of 2·62 crores in Customs on stabilisation at 1*s.* 4*d.** After allowing for a margin of 62 lacs in respect of the two assumptions made in that statement, there would remain only rupees 1·16 crores to fill the gap in the General Budget.

120. This does not take into account the decrease under bounties to certain industries given on the rise of exchange to 1*s.* 6d., and an increase in receipts under Income Tax and Corporation Tax, owing to industries being spared the disturbance incidental to 1*s.* 6*d.*, bearing in mind in this connection that Joint Stock Companies in India pay very nearly 15 per cent. out of their profits under Income Tax and Corporation Tax. Furthermore, there has to be considered the general improvement in trade and agricultural prosperity, and the consequent increase in imports resulting in additional benefit to the Exchequer. It is suggested that there may be a lag in the receipt of increased revenue under Income Tax and Customs Duties. It is not clear why this lag should be for more than a few weeks, because the change in the ratio would automatically involve a corresponding change in rupee calculations for purposes of Customs Duties and Tariff valuation.

121. But the very fact that Sir Basil Blackett looks upon the increased revenue, accruing from a 1*s.* 6*d.* rate, as a tangible revenue, worth even naming for purposes of discussion of the ratio, shows that he is not convinced that adjustment to a 1*s.* 6*d.* rate is complete. Giving evidence before us in Calcutta, he said that after a number of years it made no difference to the Government what the rate of Exchange was. (Question 10,451.) He did not indicate what period he had in mind when he said this, but one may presume that he meant the period of non-adjustment. As long, therefore, as the adjustment is incomplete, this unearned increment in the Government of India Revenue Budget will be a tangible and visible asset, for it is clear that this gain from Exchange exists during the period of non-adjustment only, and will vanish when adjustment is complete. In the former case, the plea that the *de facto* rate, if changed to a lower rate would cause serious economic disturbance, does not stand. In the latter case, the gain to the Exchequer, besides being not a "decisive factor," is not a practical issue deserving consideration. The Government has, therefore, to admit that this argument for stabilisation at 1*s.* 6*d.* has no value. Moreover, during the period of non-adjustment, while there is a tangible gain to the Exchequer, some one pays for it. In the words of Mr. Robert Campbell and Sir John Muir, in their supplementary note in the Fowler Committee Report, "This advantage is not obtained without being paid for, and the question of who pays for it is not difficult to answer; it is the producer who has to accept so many fewer rupees for the produce he has to sell."

(2) Effect on Contracts.

122. It has been urged that a change to 1*s.* 4*d.* will prejudicially affect outstanding contracts of a short term character. On the other hand, it has been suggested that stabilisation at 1*s.* 6*d.* will similarly affect the bulk of other outstanding contracts, particularly, the indebtedness of the agriculturist to the moneylender, which is the largest amount involved in this consideration. The outstanding contracts can be divided as follows:—

(1) Contracts of a commercial nature, such as contracts to buy and sell goods, ordinarily liable to liquidation within a period of six to twelve months.

(2) Contracts to borrow on behalf of commercial and industrial concerns, which have a currency of 20 to 30 years, such as Debentures of Joint Stock companies.

* See Appendix 96. Mr. McWatters' further Statement.

(3) Contracts entered into by the agriculturist of India, who is notorious for his continuous borrowing from father to son, borrowing which, unfortunately, is rarely repaid, and where both the lender and the borrower are happy if interest only is regularly paid either monthly or yearly as the arrangement may be.

Commercial Contracts.

123. Regarding (1), it is acknowledged that for all commercial transactions, exchange can be covered for a period of 12 months ahead. If therefore the importer in India elected at any time to keep his exchange open against some contracts to buy for delivery within the following 12 months, one need hardly consider his case. Such a person elected to speculate in exchange, and if he suffers, the fault cannot be anybody else's but his own. Further, it has been widely known all over India since July 1924 that the existing statutory rate of 2*s.* to the rupee had to be changed for a more effective ratio, and no ordinarily careful person would have been justified in leaving his contracts open, or entering into contracts where he could not have covered his exchange.

124. Speaking in the Assembly on the 1st of March 1921, Sir Malcolm Hailey, then Finance Minister, explaining that the Government were not responsible for the losses of those who had traded, counting on the 2*s.* ratio being maintained, said:—

> "But I would ask the House to remember that I definitely told the Legislative Council last year that it was impossible to say what variations might take place in the rupee-sterling exchange throughout the year. Ordinary commercial prudence should have led merchants to cover their exchange."

125. If the Government of India had justification for what Sir Malcolm Hailey said in 1921 with reference to a rate which was put on the Statute Book, and to maintain which the Government spent such a colossal amount of India's reserves, there is hardly anything to be said for a rate which is neither statutory, nor has the weight of official indication*; for, indeed, if there was an impression that the Government wanted 1*s.* 6*d.* it was known that the Indian public were against changing the permanent ratio of India unless convincing proofs could be adduced.

Industrial and Commercial Borrowings.

126. The industrial and commercial corporations borrowing over a period of 20 or 30 years would not be prejudicially affected by having to meet their obligations at the gold value of the rupee at 1*s.* 4*d.* if they entered into their obligations before 1917. It is only those who have had to borrow since 1917 who would be affected by the ratio of 1*s.* 4*d.* No figures are available as to the numbers or amounts thus involved, but in any case they cannot be very large. It must be admitted that those who borrowed when Exchange was unpegged and fluctuated between 1*s.* 4*d.* and 2*s.* 10½*d.* and from there down to 1*s.* 3½*d.* to the 1*s.* 6*d.* of to-day, would sustain some unforeseen loss, or profit, according to their operations. But the Government resisted any claim from the commercial community affected by their inability to maintain the ratio at 2*s.*; and the losses of persons adversely affected by a revision to the ratio best suited to the country's requirements would only be met by them with an expression of sympathy for the misfortunes of such people, and nothing more. These fluctuations perhaps were unavoidable up to a certain point during the aftermath of the War, and the best that can be done by us is to decide as to who would be most injuriously affected by the ratio recommended, and whether they can be saved from its effects.

* *Vide* Sir Basil Blackett's answers in the Assembly, 19th September 1924, Vol. IV : No. 56, page 3812.

The Agricultural Indebtedness.

127. Looked at from this point of view, the indebtedness of the Indian agriculturist and the masses demands serious consideration. Mr. M. L. Darling, I.C.S., of the Punjab, estimates that the indebtedness of this class, including even the prosperous canal agriculturist in the Punjab, is over 600 crores of rupees.* It is probably another 200 crores on the Indian States. As the rate of Exchange between 1900 and 1917 was around about 1*s.* 4*d.*, it is only right to assume that most of this debt of 800 crores was contracted when the rupee was 1*s.* 4*d.* gold. Now to put on the statute book 1*s.* 6*d.* gold would practically mean putting a burden of 12½ per cent. on these borrowers, and this is a class whose contracts ought to come in for full consideration in any decision to stabilise the rupee. Under the heading of Contracts, therefore, the higher figure of 1*s.* 6*d.* has little to recommend it, and very much against it.

(3) Stability of a 1*s.* 6*d.* ratio.

128. Another important consideration is whether the 1*s.* 6*d.* ratio is as easy to maintain as 1*s.* 4*d.* Officials of the Government of India have all maintained that in their opinion Government have the resources to maintain exchange at 1*s.* 6*d.* Mr. Kisch of the India Office, giving evidence, agreed in this, and several retired officials of the Government of India have supported this view. On the other hand, the Indian Section of the London Chamber of Commerce have pointed out that India has had during the last five years successively prosperous monsoons, and it must not be overlooked that India is liable to bad monsoons at intervals, and has had experience in the past of two and even three consecutive bad monsoons. Under such circumstances, the question of the possibility of maintaining the rupee at the higher ratio of 1*s.* 6*d.* is a matter of serious consideration. But even granting that the Government of India have at the moment resources enough to support Exchange at 1*s.* 6*d.*, the question we have to decide is whether it is necessary to fix a ratio that would require larger resources to maintain, if the fixing of such a higher ratio can be avoided. None can say that the Government of India would not require larger reserves to maintain Exchange at 1*s.* 6*d.* than at 1*s.* 4*d.*; in fact, a little lull in the export trade from March, 1926, necessitated resort to deflation in India to the extent of rupees 8 crores to maintain Exchange, and following the first deflation of 3 crores, an announcement that the Government would sell Reverse Councils at 1*s.* 5¾*d.* The very fact that a slight lull in the export trade necessitated this support, shows that 1*s.* 6*d.* cannot be looked upon as so easy to maintain as 1*s.* 4*d.* has proved to be between 1899 and 1914. Even granting that in the first year of an unfavourable balance of trade, the Government can maintain 1*s.* 6*d.* by selling Reverse Councils, should such a risk not be minimised, by adopting the lower ratio of 1*s.* 4*d.* which necessitated administrative support by sale of Reverse Councils only during two periods of extraordinary occurrence, not in India, but abroad?

129. The occasions when Reverse Councils had to be sold, between 1899 and 1924, are as under:—

	£
In 1907-1908-1909, total sales of Reverses	8,058,000
In 1909-1910 „ „	156,000
In 1914-15 „ „	8,707,000
In 1915-16 „ „	4,893,000
In 1918-19 „ „	5,315,000
In 1919-20 and 1900-21 total sales of Reserves	55,532,000

* Page 17 "*The Punjab Peasant in Prosperity and Debt.*"

It is clear that the 1907 to 1910 sales were due to the American crisis, and the 1914 to 1921 to the effects and the sequence of the War, and mismanagement of Indian Currency on the Babington-Smith Committee's majority recommendations. Therefore they were not Indian conditions which disturbed the statutory ratio of 1*s.* 4*d.*, but external forces over which India had no control, and which could not have been foreseen or avoided. In the present case it is difficult, if not impossible, to ascertain to what extent the risk to which the freaks of nature in Indian climatology and an unfavourable balance of trade would expose the resources of the Government of India to the point of depletion. Why take any risk in this connection if it can be avoided? I consider that by fixing the ratio at 1*s.* 4*d.* this very substantial risk, which if not perceptible at the moment, is certainly not fanciful, can and should be appreciably diminished.

(4) Melting Point of the Rupee.

130. It has been contended that with a 1*s.* 6*d.* ratio the melting point of the rupee will be at a higher figure (48*d.*) than with 1*s.* 4*d.* (43*d.*), and that this constitutes an advantage on the side of the 1*s.* 6*d.* rate. But we recommend the issue of one rupee notes, convertible only into legal tender money and gold, and not into silver rupees, as a precaution against a rise in silver prices. The evidence of the American witnesses in this connection is illuminating, and indicates that inasmuch as silver is now mined mainly as a by-product of various ores, the anxiety of silver holders should be rather to sell it at or near the present price of 30*d.* than to expect a rise. But should circumstances change in the future, Professor Sprague put it well when he said that if silver rose to or over 48*d.*, there would be nothing to prevent it from going to 56*d.* or 66*d.* The melting point of the rupee as expressed in the price of bar silver therefore ceases to be a consideration in deciding between a ratio of 1*s.* 6*d.* or 1*s.* 4*d.*

(5) Currency Reserves.

131. A revaluation of the Reserves consequent upon the adoption of a ratio of 1*s.* 4*d.* would make the position of the Central Bank easier, since the *ad hoc* securities in the Paper Currency Reserve would be reduced to the extent of about Rs. 14 crores. It will be seen from Paragraph 136 that my colleagues have recommended that about Rs. 57 crores of created securities now in the Reserve should be converted during the course of the next ten years into marketable securities. The valuation of these securities at 1*s.* 4*d.* instead of 1*s.* 6*d.* would reduce by 14 crores the amount of securities thus to be replaced and *pro tanto* relieve the Government of the necessity of borrowing in the open market.

(6) Other Arguments for 1*s.* 6*d.* Examined.

Adjustments and the course of foreign trade.

132. It is claimed by my colleagues (para. 190) that if adjustments to the 1*s.* 6*d.* rate had not taken place, such non-adjustment would be reflected in the foreign trade of India, and either exports or imports would be subjected to a handicap. But, they say, "the general trade of the country, taken as a whole, shows no signs of the imposition of such a handicap."

133. My colleagues admit that India has had four good years in succession. Bearing in mind the low holding power of the grower in India, it is no proof of the suitability of the existing rate of exchange that exports have continued, and have not shown a falling off since the higher rate has been in operation. The bulk of Indian exports consists of raw materials. If the crops are grown, they have to be sold before the next

harvest, and this must be done whatever the rate, as long as there is any demand for them in the world markets.

134. My colleagues from India will not overlook the constant complaint that has prevailed there since 1922-23, that trade generally has been slack, especially the import trade. In spite of four good years and lower prices for imports, the Indian consumer has kept out of the market for imported articles beyond his imperative requirements. Even in Lancashire I understand that the feeling has lately been gathering that non-adjustment to a higher Indian exchange brings in its train a reduction in the purchasing power of the Indian masses.

135. My own conclusion is that no such inference as my colleagues draw from the course of India's foreign trade is warranted. If anything, the continued slack demand for imports is to be regarded as an indication of the lower purchasing power of the masses, due to non-adjustment to the 1*s*. 6*d*. rate.

Absorption of gold.

136. In Paragraph 203, my colleagues refer to the argument advanced by some witnesses that the higher rupee price of gold at 1*s*. 4*d*. as compared with 1*s*. 6*d*. would check the absorption of gold by India for social or alleged hoarding purposes. They point out that when adjustments to 1*s*. 6*d*. are complete, the real cost of a *tola* of gold, sold at Rs.21.3.10, will be as great as with 1*s*. 4*d*. at which its price would be about Rs.24.8.0. They therefore admit that till adjustments are complete the rupee cost of gold would be lower relatively to other commodities, and gold would therefore be more attractive to buyers in India. It is not, however, a question of lowering the exchange rate to check the absorption of gold for the next few years, but of the desirability of not raising the exchange rate from the level which, on other and vital considerations, has proved suitable to Indian conditions.

Alleged effects of a reversion to 1*s*. 4*d*.

137. In Paragraph 206, my colleagues apprehend a profound disturbance in economic conditions throughout India by restoring the pre-war ratio of 1*s*. 4*d*. This is an apprehension which must be fully examined. The feared rise in prices of exportable raw materials cannot be looked upon as a direct hardship to any one in India. A rise in rupee prices of imported articles may be a source of anxiety to those who manufacture for import into India. But even these manufacturers now realise that a higher rupee price would be made up for by the better purchasing power of India as a whole. The extent to which the 1*s*. 4*d*. ratio will entail a rise in prices of articles grown and consumed in India is the vital consideration in this argument of my colleagues. They apprehend a rise in the price of these articles to the full extent of 12½ per cent. because they conclude that internal prices are "substantially" adjusted to the 1*s*. 6*d*. rate. For reasons already stated, I do not accept this conclusion. I have shown that the index numbers used by them lead instead to the conclusion that adjustment to 1*s*. 6*d*. is far from complete and that the major part of it is still to come. I therefore conclude that such disturbance as may ensue from the fixation of the lower ratio will produce a very insignificant disturbance in economic conditions, injurious to but a few, if any at all. On the other hand, insistence on stabilisation at 1*s*. 6*d*., will not only produce, but, will prolong, the profound disturbance of economic conditions throughout India, which is just beginning to be perceived, and the worst effects of which are still to come.

138. My colleagues apprehend that the lower ratio would severely hit consumers generally and the poorer paid members of the literate classes. If 79 per cent. of the people of India subsist on agriculture, it is difficult

to understand the concentration of my colleagues on the interests of the other 21 per cent. who live on the production of this class. I am convinced that the adjustment to 1*s*. 6*d*. can at best be regarded as having just started. The official figures referred to in Paragraph 108 above show that the wages of the clerical classes are not on the border line of the present cost of living and the apprehension of my colleagues is, if I may say so, an exaggerated one.

139. Regarding their plea in the interests of labour, I expected that after the experience of labour troubles in Europe lately, they would have hesitated to put this apprehension of theirs in the way they have done. It may be that with the fixation of the 1*s*. 4*d*. rate some industries may have to raise their wages if they are compelled to give their labour an increase corresponding to the index number of the cost of living.

140. But most of the industries in India, including agriculture, have been paying, since 1921, a wage which is proportionately higher now than the increase in the cost of living. A reduction in wages in India is, as said previously, not possible without serious conflict between the employer and the employee. Unless this conflict is to be forced on India, and agriculture made less attractive than it has been hitherto, the argument advanced by my colleagues cannot be accepted.

141. To my mind, in the conditions prevalent in India, both equity and expediency dictate that the monetary ratio most suitable to Indian conditions should be restored as the permanent ratio. Any partial consideration of the problem cannot but prejudice; but statesmanship requires fullest consideration of all aspects of the issues involved in this subject, and demands, in the words of the Finance Member of the Government of India, that the ratio be fixed "at whatever figure may be most truly in the interests, not of this or that section, not of the producer or the consumer or the taxpayer, considered in isolation, but in the best interests of India as a whole."* As far as labour is concerned, there should not be the least doubt that the correct view is to ensure continuity of employment and the least possible disturbance to the legitimate interests of those who employ it.

142. In the latter part of their Paragraph 206, my colleagues refer to the inconvenience that would be caused to those who deal in the Exchange Market. This, to a certain extent, would be inevitable, if the arbitrary decision of the Executive is not endorsed on the several important grounds that I have already dealt with.

143. Once the importance of the issues involved is fully realised, it can safely be said that the responsibility for such disturbance as is now inevitable must lie with the Government of India who chose to go past the pre-war ratio, and made every effort to put India on to a ratio unsuitable to her as a permanent one.

(7) Sanctity of a Ratio once Established.

144. Finally, there is the sanctity of the standard of money payments. The Fowler Committee's recommendations in regard to the standard and the ratio are perfectly clear. That ratio was set down on the Statute Book even if their recommendations in regard to the standard or the Reserves were departed from in practice. Since 1893 the rupee has always been a token coin, representing by law till 1920 7·53344 grains of gold. That the rupee has been, and is, a token coin, is admitted, both by the Chamberlain Commission and by the present Finance Member, the standard unit till 1920 being 7·53344 grains of gold. All values have been measured in terms of that standard. An attempt was made in

* Par 46. Budget Speech of the Finance Member, Government of India, February 28, 1925.

1920 to change that standard to 11·30016 grains of gold, and although this was legalised, for all practical purposes it has never prevailed.

145. A standard being what it is, to measure weights or lengths or values with, it stands to reason that, once laid down by law, it cannot be lightly changed. As any change in the standard of weight or length, would constitute an injustice, so would any change in the standard of value. The British sovereign, as the standard unit value of the country must always contain 113 grains of gold. Any reduction or increase of this gold content would constitute an injustice on debtors and creditors.

146. It is different with a token coin. Any debasement of the shilling, for instance, by making it smaller or of a lesser silver content, would not affect anyone; 20*s.* would represent the sovereign. The rupee is a token coin, and its intrinsic value does not matter, but it cannot pass for more or less than 7·53344 grains of gold without constituting a currency fraud. The giver of a promissory note of 100 rupees bound himself to give 753 grains of gold. Any enactment laying down a higher gold value for the rupee would oblige him to give more gold than he undertook to pay, and than the holder was entitled to receive. Herein lies the injustice of a change in the ratio.

Conclusion as to the Ratio.

Claim of the debtor class.

147. A change to 1*s.* 6*d.* hits the large bulk of the debtor class, to the benefit of the creditor class. I cannot conceive of any valid or moral reasons for a step calculated to give the latter an unearned increment at the expense of the former. In India, perhaps more than anywhere else, the debtor class is the largest and the neediest, for whom the Government has always evinced concern and solicitude. What unavoidable reason, then, is there to hit *this* class? Throughout the course of our enquiries I have not heard of a single argument, which I can reasonably accept as sound, even pointing to the inevitability, to say nothing of the justifiability, of imposing an additional burden on a class already overburdened.

Suitability of 1*s.* 4*d.*

148. A ratio moreover that stood for 20 years even during the American crisis, till 1917, and was only disturbed as a result of the War, in common with the ratios of other countries in the world, cannot lightly be said to be a ratio that is unnatural to the Indian currency system. No change is therefore called for simply because for the last ten months the Government of India have managed by artificial measures to keep the value of the rupee round about 1*s.* 6*d.*, in accordance with a preconceived policy. In brief, exchange has never been allowed in recent years to find its own natural level; it has been regulated by the series of operations which I have aready dealt with.

Danger of tampering with the standard.

149. There is another aspect of the matter that one cannot afford to ignore. Any tampering with the standard of value is bound to have serious political effects in India, and to cause distrust in its currency system and the financial administration of the country. A change in the standard is bound to shake the confidence of the people, who will feel that they have been wronged by it, that it has been lightly changed, and that it may lightly be changed again, for if a long established rate (I shall not call 1*s.* 4*d.* the legal rate after the enactment of 1920) is deliberately changed, what is there to prevent another change being made again at any time in the future? Can the public rightly be led to believe that any contracts that they may make on the ratio now recommended by my

colleagues will not be subjected in future years to yet another change? Herein will arise the distrust of the people, not only in their own currency and financial system, but in their Government. Indeed, the political consequences of a change in the ratio cannot be contemplated without the most serious misgivings. Why invite such consequences and such mistrust when the "permanent rate" is still within reach, and that too with very slight disturbance, if any, to existing conditions? No other country has adopted a rate of exchange higher than its pre-war rate. Even Great Britain did not change her standard when the £ sterling dropped to 3·38. Nothing would have been easier than to have then enacted that the £ sterling should represent 15*s.* instead of 20*s.*; but it was a question of Britain's credit in the eyes of the rest of the world, and the question of the equity of the contracts based on the continued existence of the sovereign containing no more and no less than 113 grains of gold. Why should India be asked to appreciate her ratio when no other country, even in the most prosperous circumstances, has considered it just or advisable, or even expedient to do so?

The "permanent rate."

150. The Fowler Committee definitely recommended 1*s.* 4*d.* as the "permanent rate," and a permanent rate should only be changed under absolute and unavoidable necessity. Other countries have made great sacrifices to return to their pre-war ratios, which is a proof of the sanctity attaching to them. But in India it is not a question of making a great sacrifice to regain her "permanent rate." It is, at worst, a question of balancing the disturbance which may be caused by a reversion to 1*s.* 4*d.*, and an adoption of 1*s.* 6*d.* Even if it is granted that the disturbance involved in the former would be as great as the disturbance still to come with an adoption of a 1*s.* 6*d.* ratio—which is the utmost that could be conceded—then the balance must be weighed, for the reasons stated above, in favour of the 1*s.* 4*d.* ratio as being the "permanent rate" established on the authority of the Fowler Committee.

Vital importance of the ratio.

151. I look upon the question of the ratio in this Report as being no less important than the question of the standard to be adopted for the Indian Currency System. I am convinced that if the absolute necessity of the free inflow of gold, which I have emphasised, is recognised, and steps taken to ensure it, the gold bullion standard proposed will be the correct one, and the likelihood of its breaking down under the strain of any convulsions in the future will be as remote as it can reasonably be. But I have very grave apprehensions that if the recommendation of my colleagues to stabilise the rupee at 1*s.* 6*d.* is accepted and acted upon, India will be faced during the next few years with a disturbance in her economic organisation, the magnitude of which is difficult to estimate, but the consequences of which may not only hamper her economic development, but may even prove disastrous. Such a disturbance and its consequences my colleagues do not foresee to-day. But the possibility of their occurring cannot be ignored. Until adjustment is complete, agriculture threatens to become unattractive and less remunerative than it is to-day, and industries will have to undergo a painful process of adjustment, unnatural, unwarranted and avoidable—an adjustment which will be much to their cost, and affect not only their stability and their progress, but in certain cases, their very existence. And should Nature have in store for India a couple of lean years after the four good harvests that we have had, during the period of forced adjustment to a rate of 1*s.* 6*d.*, the steps that the Currency Authority will have to take to maintain exchange at this rate may deplete the gold resources of the country to an extent that may seriously shake the confidence of her people in the currency system recommended.

Why take any risk?

152. With extraordinary good luck the country may find it possible to avoid all these dangers. But why incur the risk at all? Why gamble on uncertain factors if India's natural ratio of 1*s*. 4*d*., that stood for 20 years unshaken by the crisis of 1907-1908, and shaken only after 1917 by a world convulsion, and then, too, mainly because of the embargo on the import of gold, is still within India's reach?

Unparalleled Procedure.

153. The facts and figures that I have stated, and the records from which I have quoted, conclusively show that the Executive had made up their minds to work up to a 1*s*. 6*d*. ratio long before this Commission was appointed to examine the question. Indeed, they have presented to us the issue in this regard as a "*fait accompli,*" achieved by them, not having hesitated by manipulation to keep up the rate even while we were in Session. I cannot conceive of any parallel to such a procedure in any country.

PURSHOTAMDAS THAKURDAS.

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

APPENDIX 1.

Memorandum Circulated to Witnesses in India.

The following memorandum, indicating the main questions which will come under the consideration of the Royal Commission on Indian Currency and Finance under its terms of reference, is published in order to assist intending witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised:—

(1) Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

What is the comparative importance of stability in internal prices and in foreign exchanges?

What are the effects of a rising and a falling rupee and of a stability of high or low rupee on trade and industry including agriculture and on national finance?

(2) In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

(3) If the rate selected differs materially from the present rate how should transition be achieved?

(4) What measures should be adopted to maintain the rupee at the rate selected?

Should the Gold Exchange Standard system in force before the war be continued and with what modifications, if any?

What should be the composition, size, location, and employment of a Gold Standard Reserve?

(5) Who should be charged with the control of the note issue and on what principles? Should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?

What provisions should be made as to the backing of the note issue?

What should be the facilities for the encashment of notes?

What should be the policy as to the issue of notes of small values?

(6) What should be the policy as to the minting of gold in India and the use of gold as currency?

Should the obligation be undertaken to give gold for rupees?

(7) By what method should the remittance operations of the Government of India be conducted?

Should they be managed by the Imperial Bank?

(8) Are any, and, if so, what measures desirable to secure greater elasticity in meeting seasonal demands for currency?

Should any, and if so, what conditions be prescribed with regard to the issue of currency against hundis?

(9) Should any change be made in existing methods for the purchase of silver?

APPENDIX 2.

Memorandum (Circulated to a Number of Witnesses in India) Describing Certain Alternative Schemes.

The following outlines of alternative schemes for (1) a Gold Exchange Standard system for India and (2) a pure Gold Standard, on the assumption in both cases that the management of the Paper Currency and the conduct of the remittance operations of Government are transferred to the Imperial Bank of India, have been brought to the notice of the Commission. It is considered that it will assist the examination of witnesses if they are in possession of these outlines, and this memorandum is accordingly communicated for the personal information of witnesses. It should be understood that its contents are strictly confidential and that they do not in any way emanate from the Commission.

GOLD EXCHANGE STANDARD.

2. A possible scheme for a real Gold Exchange Standard is as follows :—

(A) Gold coin, bank notes and silver rupees should be unlimited legal tender.

(B) Government should be under a statutory obligation to give gold coin in exchange for gold bullion at any time on payment of a seignorage to cover minting charges.

(C) The Imperial Bank should be under a statutory obligation to buy gold bullion in the same way as the Bank of England and at a price fixed on a similar basis.

(D) All bank notes should be payable on demand in rupees, and bank notes of the denomination of Rs. 10,000 in rupees or foreign exchange at the option of the presenter, a charge being made by the Bank if foreign exchange is demanded not greater than the cost of transporting gold to the foreign country on which exchange was demanded. Foreign exchange would be defined as transfers at the par of exchange on London or on foreign banks in countries outside Great Britain prescribed by the Governor-General in Council subject to the condition that at least one such foreign bank situated in a country having a gold standard currency should be so prescribed.

(E) The Imperial Bank should be under a statutory obligation to give silver rupees or notes in exchange for gold coin.

(F) The constitution of the Currency Reserve would be as follows :—

(i) Invested portion to be limited to 50 per cent. of gross circulation, but Bank to have right of increasing it to 70 per cent. on payment of tax to Government at rate of 6 per cent. on excess over 50 per cent.

(ii) Not more than one-half of securities to be rupee securities, of which a maximum of 40 crores may be Government of India securities and the balance internal bills of exchange having a currency of not more than three months or other self-liquidating securities.

(iii) Remainder of securities to be in form of short-term British or Colonial Government securities or securities of Government of any country on which foreign exchange can be demanded or trade bills drawn in India in sterling and having a currency of not more than three months.

(iv) Of metallic holding, not more than 50 crores to be in form of rupees or silver bullion at purchase price, remainder being in form of gold coin or bullion. Entire reserve to be located in India except when awaiting shipment or in transit.

(G) Silver rupees would be given by Government to the Bank in exchange for silver bullion on payment by the Bank of the difference between the currency value and the bullion value of the rupees.

(H) A separate reserve to be called the reserve for the redemption of rupees would be maintained to provide against the return of rupees from circulation. This reserve will be used only in the event of a return of rupees from circulation, the responsibility for the maintenance of the exchange value of the rupee remaining under all other conditions with the Bank. In such an event the Bank would call upon Government to take back silver rupees and to pay for them in sterling. Government would accordingly undertake to receive back silver rupees from the Bank subject, except in the case of a prolonged return, to a charge equivalent to the cost of melting and refining the rupees and to pay to the Bank in sterling the value of rupees so received. The rupees received will be placed temporarily in the redemption reserve pending a demand from the Bank for rupees. In the absence of such demand in a reasonable time, Government would melt and sell the rupees and place the sterling received in the reserve, any loss being borne by the reserve.

(I) The Bank would undertake to keep the India Office supplied with funds for meeting the sterling charges of Government.

3. The existing constitution of the Currency and Gold Standard Reserves and the proposed constitution of the new Currency Reserve are as follows, on the assumption that sterling and gold holdings are converted at 1*s*. 6*d*. and that the metallic percentage would be 53 under the new scheme and that the Bank would hold the maximum amount of Government of India securities and silver, no inland trade bills and no gold securities except sterling securities :—

(In crores of rupees.)

——	Silver.	Gold.	Government of India securities.	Sterling securities.
Existing constitution (as on 30th September, 1925).	90·7	29·7	57·1	27+53 (Gold Standard Reserve).
Future constitution	49·5	50	40	50

The foregoing table shows that the constitution of the new reserve should present no difficulty provided that gold could be readily obtained in exchange for sterling; an excess holding of 17 crores of *ad hoc* Treasury bills can be cancelled at once, and the sale of the surplus silver will have to be spread over three years or so, so that the limit of 50 crores for the maximum holding of silver cannot come into force till after this period.

Assuming an absorption of 21 crores of rupees before the limit of 50 crores became effective, the reserve left with the Government for the redemption of rupees will consist of about 31 crores of sterling plus the amount realised from the sale of the silver content of 20 crores of rupees, which at an average price of 30*d*. an ounce may be taken at 12 crores. The reserve will thus amount to 43 crores or 10 crores less than present Gold Standard Reserve and can be added to by crediting to it profits on coinage and the interest on sterling investments.

Alternative Proposal.

4. The foregoing scheme contemplates the retention of a separate reserve for the redemption of rupees. The necessity for the separate reserve arises from difficulties in combining the currency and Gold Standard Reserves in consequence of the impossibility of determining the precise amount of liability to be provided for in the combined reserve in respect of rupees at present outstanding with the public and to be coined in the future. It has been suggested as an alternative that this liability can roughly be assessed at 50 crores in respect of rupees outstanding and 1 rupee for every 4 rupees to be coined in the future; cover would be provided to this extent in the combined reserve, and the responsibility for the maintenance of the exchange value of the rupee will then rest in all circumstances with the Bank.

Gold Standard.

5. The details of a scheme for a pure Gold Standard after its complete introduction are as follows:—

(A) Gold coin and bank notes should be unlimited legal tender and silver rupees up to Rs. 50 only.

(B) Government should be under a statutory obligation to give gold coin in exchange for gold bullion at any time on payment of a seignorage to cover minting charges.

(C) The Imperial Bank should be under a Statutory obligation to buy gold in the same way as the Bank of England and at a price fixed on a similar basis.

(D) Bank notes should be payable on demand in gold coin.

(E) The constitution of the new reserve should be as follows:—

(i) Gold holdings should ordinarily be not less than 30 per cent. of gross circulation, but may be reduced to 20 per cent. on payment by Bank of a tax of 6 per cent. on amount by which invested portion exceeds 70 per cent.

(ii) At least 20 per cent. of invested portion should be gold securities or trade bills drawn in India in sterling and having a currency of not more than three months.

(iii) Remaining investments should be Government of India securities up to a maximum of 90 crores and internal trade bills or other self-liquidating securities.

(F) The Bank should undertake to keep the India Office supplied with funds to meet the sterling charges of Government.

6. The rupee cannot be limited as legal tender as proposed unless an opportunity be first given of converting the rupee holdings into gold.

7. The scheme cannot be introduced at once owing to the impossibility of providing for the immediate conversion into gold of all silver coin that may be presented. The following stages have accordingly been suggested for the gradual introduction of the scheme:—

(i) A statutory obligation should be imposed on Government to sell to any person, who makes a demand in that behalf at the Bombay Mint and pays the purchase price in any legal tender, gold bullion at a price equivalent to the par of exchange, but only in the form of bars containing a fixed minimum weight of fine gold (say 400 ounces troy). A statutory obligation should also be imposed on Government to give, in exchange for gold bullion, notes or silver at a price equivalent to the par of exchange less a small seignorage charge.

(ii) A gold coin should be put into circulation and offered as freely as resources permit in exchange for notes and silver rupees at Currency offices, treasuries and branches of the Imperial Bank of India, without any definite obligation to give gold coin for notes or silver rupees being imposed.

(iii) After a period fixed by statute (say five years) the liability to give gold coin in exchange for notes or rupees and also for gold bullion on payment of a seignorage should be imposed.

(iv) After a further period fixed by statute (say five years) the silver rupee should be made legal tender for sums up to a small fixed amount only (say Rs. 50).

8. To turn to the total demand for gold to introduce the scheme and its cost, assuming that 110 crores of rupees in all would be converted by the public in addition to 90 crores held by Government, it would be necessary to provide gold or gold securities of the value of about 200 crores. It is difficult to judge what price could be realised for silver sold; if an average of 24*d*. could be realised the recovery would be half the exchange value of the rupee on the assumption of an exchange rate of 1*s*. 6*d*.

The gold ultimately required for the reserve on the basis of a note circulation of 189·5 crores amounts to 56·9 crores, against which is held at present 29·7 crores. The total gold required for introducing the scheme in all its stages will thus amount to 27·2 crores *plus* the gold required for converting the 110 crores to be tendered by the public, i.e., a total of 137·2 crores, or £103 millions.

The cost of the scheme finally would represent the difference between the interest on the investments in the reserve as finally constituted and the interest now received: this is estimated at 1 crore. During the transition period there would be a further charge on account of the carrying on of metallic stocks owing to the gradual conversion of surplus silver into gold and the interest on external credits which would probably have to be obtained to meet the sterling charges

of Government while the gold reserves were being built up. It is estimated that this extra charge would amount during the first five years to about $1\frac{3}{4}$ crores a year.

The points for consideration in connexion with this scheme are (i) the extra cost involved, (ii) the possibility of getting the gold required and the effect of its withdrawal for the purpose of Indian requirements, particularly the effect upon world gold prices, and (iii) the effect of the scheme on the silver market and the possibility of realising a reasonable price for the surplus silver.

APPENDIX 3.

Memorandum giving the History of the Indian Currency system, submitted by Mr. A. C. McWatters, C.I.E., I.C.S., Secretary to the Government of of India, Finance Department.

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NOTE.—The object of this Memorandum is to give in a self-contained narrative an account of the principal facts relating to Indian Currency and Exchange down to the present time. Existing published material has been freely utilised, and in particular the Memorandum incorporates and brings up to date much of the information placed before the Babington-Smith Currency Committee by the late Sir Lionel Abrahams.

I.—Indian Currency System up to 1893.

1. Before the 26th June, 1893, India had a silver standard, and the rate of exchange between India and gold standard countries depended on the price of silver. The money of the country consisted of silver rupees, subsidiary coins, and currency notes (encashable for rupees), against which a reserve was held, consisting mainly of rupees, but to some extent of Indian Government securities. The rupee was unlimited legal tender. The public was at liberty to tender silver bullion at the Mint to be coined into rupees; and this was the way in which the rupee coinage was actually replenished.

2. For 20 years before 1893 the general tendency of the rate of exchange was downwards. The average rate at which the Secretary of State for India sold remittances on India in each year from 1873-74 to 1892-93 is shown in Appendix I.

3. Since India has large transactions with gold standard countries, the variations in the rate of exchange with such countries, i.e., in the sterling value of the rupee, produced many disadvantages. With each fall in the rate of exchange, the burden measured in rupees of the external obligations of India payable in gold increased, while great uncertainty was introduced into the finances of Government and into foreign trade by the fluctuations of exchange.

II.—From 1893 to 1916.

4. After many years of discussion the conclusion was reached in 1893, in accordance with the recommendations of Lord Herschell's Committee, that the disadvantages of the fluctuations of exchange and more especially of its downward tendency, were serious enough to render desirable a change in the Indian currency system. A new system, usually described as the Gold Exchange

Standard, was then established, which, as developed in accordance with experience gradually gained, finally stood as follows :—

A. The right of the public to tender silver for coinage ceased to exist, the control of the amount of new silver coinage being thus left to be exercised by the Government.

B. The rupee remained legal tender without limit of amount.

C. The Secretary of State for India, who had long been the largest seller of remittances on India, undertook to sell bills of exchange on India without limit of amount at 1*s.* 4⅛*d.* per rupee as a maximum rate. He also maintained, though without formal notification, the practice of not selling below 1*s.* 3$\frac{29}{32}$*d.* per rupee.

D. The British sovereign and half-sovereign were made legal tender for 15 and 7½ rupees, respectively, the rate thus established being the equivalent of 1*s.* 4*d.* per rupee. The Government undertook to issue rupees to the public in exchange for sovereigns and half-sovereigns at the same rate. They also issued sovereigns and half-sovereigns to the public to a limited extent, but undertook no obligation to give them in exchange for notes or rupees.

E. Ordinarily there was a steady demand for the remittances on India (commonly known as Council Drafts) sold by the Secretary of State as mentioned in C above. This demand came mainly from the Exchange Banks and was due to the fact that, India's exports being in most years more valuable than her imports, outward remittances are ordinarily more in request than homeward, and the drafts offered by the Secretary of State were the chief means by which the Banks could obtain the Indian Currency needed for meeting the outward demand in full. But occasionally, owing to temporary variations in the currents of trade, there was a greater demand for homeward than for outward remittances. This might have caused the rate of exchange to fall for the time considerably below the minimum rate of 1*s.* 3$\frac{29}{32}$*d.* per rupee mentioned in C. On the few occasions on which such a demand arose, the Secretary of State met it by selling homeward remittances (commonly known as Reverse Drafts) at a fixed rate slightly below the minimum just mentioned.

This bare statement of essentials shows that the Secretary of State made arrangements which, so long as their continuance was not prevented by external difficulties, had the effect (*a*) of keeping India supplied with Indian currency to the full extent of the effective demand as expressed by the tender of sterling for the purchase of rupees, (*b*) of maintaining the rate of exchange in the neighbourhood of 1*s.* 4*d.* the rupee, the extent of possible variation being limited by the maximum price for Council Drafts mentioned in C and the fixed price for Reverse Drafts mentioned at the end of E. These variations corresponded to the differences which in normal times constantly occur between actual exchange rates and the theoretical par of exchange in transactions between countries of which both are on a gold standard with free import and export of gold in both directions.

Appendix II contains statistics which throw light on the working of the system from 1898-99 to 1915-16, the period in which it may be considered to have been fully operative.

III.—Changes made from 1916 to 1920.

5. It is obvious that the maintenance of the system described in Section II depended, at times when there was strong demand for outward remittance, on the existence of the two following conditions :—

A. That the Government of India should have at their command adequate supplies of Indian currency, the amount required being, of course, proportionate to the intensity of the public demand. [In the absence of such supplies the Secretary of State could not maintain his offer (see 4 C above) to sell Bills of Exchange on India without limit of amount.]

B. That the price of silver should not be higher than that which corresponds to a bullion value of 1*s.* 4*d.* for the rupee.

6. The circumstances of 1916-17 and subsequent years were inimical to the realisation of Condition A. Condition B did not exist. Further particulars regarding the position as affecting these two conditions are as follows :—

(A) In the years mentioned, an important restriction (see paragraph 7 (*a*) below) was in force to limit the public demand for Indian

currency. Nevertheless, as is shown in Appendix III, the absorption by the public of the three forms of full legal tender currency was exceptionally large, in consequence of the unusually large excess of exports over imports tending to a large dispersal of money up country and the heavy disbursements by the Government of India on behalf of the Imperial Government for the expenses of the Mesopotamian and other expeditionary forces based on India and for other military purposes. At the same time, the Government of India were, in one important respect, viz., through the reduction of the imports of gold, due partly to restrictions imposed by the British and American authorities, in a specially unfavourable position for meeting the large demand for currency in 1916-17 and the subsequent years. Consequently, additions to the legal tender currency had to be made in the form of rupees and notes. The issue of rupees was limited by the difficulty of obtaining silver. The issue of notes was limited by the fact that, so far as made against securities in the absence of sufficient supplies of gold and silver, it involved the risk of inconvertibility.

(B) Owing to large purchases of silver by the Government of India and other Governments, to the decrease in the world production of silver, and from 20th March, 1919, when the dollar-sterling exchange was unpegged to the depreciation of sterling, the price of silver between August, 1917, and December, 1920, was such that the bullion value of the rupee exceeded 1*s.* 4*d.* (*vide* Appendix IV).

7. In these circumstances it was not practicable to maintain the system described in Section II. The measures taken to modify the system and to meet certain special difficulties and requirements are summarised below :—

(*a*) *Control of exchange.*—From December, 1916, the Council drafts sold by the Secretary of State were limited to a fixed weekly amount. From January, 1917, Council drafts were sold at fixed rates, the rate for immediate telegraphic transfers being 1*s.* $4\frac{1}{4}$*d.* until August, 1917, and thereafter representing prices for the rupee corresponding approximately to its bullion value at the prevailing price of silver. From September, 1919, Council drafts were sold by open competitive tender subject to a minimum rate. The fixed and minimum rates for the various periods are given below :—

Period.	*Immediate Telegraphic Transfers.* s.	d.
3rd January to 27th August, 1917	1	$4\frac{1}{4}$
28th August, 1917, to 11th April, 1918	1	5
12th April, 1918, to 12th May, 1919	1	6
13th May to 11th August, 1919	1	8
12th August to 14th September, 1919	1	10
15th September to 21st November, 1919	2	0
22nd November to 11th December, 1919	2	2
From 12th December, 1919	2	4

(*b*) The limitation of the amount of Council drafts at a time when the demand for remittance to India was exceptionally strong and no adequate alternative method of remittance was available led to a divergence between the market rate of exchange and the rate at which the drafts were sold. The remittance available was insufficient to finance the whole of the Indian export trade, and it was essential that the exports required for war purposes should not be impeded. It was found necessary, therefore, to introduce certain measures of control. From 3rd January, 1917, the sale of Council drafts was confined to Banks and firms on the "Approved List," which included the chief Exchange Banks and a few large purchasers of drafts. A little later these banks and firms were required to do business with third parties at prescribed rates and to apply their resources primarily to financing the export of articles of importance to the Allies for the purpose of carrying on the war, a list of which was drawn up by the Secretary of State. Further, in order to encourage the Exchange Banks to buy export bills in excess of their purchases of exchange in the other direction, the Secretary of State insured them against the risk of a rise in exchange, by undertaking to sell to them within a year after the war exchange up to the amount of

their overbuying at the rate at which their excess purchases had been made. After the conclusion of the armistice the necessity for reserving finance for particular exports ceased. The overbuying guarantee was in due course terminated, and the list of articles to which priority of export finance was given was abolished.

(*c*) *Purchase of silver.*—Special measures were also taken to increase the supply of currency. In February, 1916, the necessity for rupee coinage on a large scale became apparent, and the Secretary of State began to purchase silver. In 1915-16 and subsequent years he bought in the market the amounts shown below. To facilitate his operations, by excluding from the market Indian buyers who would otherwise have bought for non-coinage purposes, the import of silver into India on private account except under license was prohibited on the 11th July, 1917. This measure, however, removed only a few of the smaller competitors for the worlds diminished supply of silver, and the world demand remained so heavy that it was impossible to satisfy India's demand without tapping sources of supply outside the ordinary market. The Government of the United States of America, therefore, were approached on the subject of releasing a portion of the silver dollars held in their reserve, and on the 23rd April, 1918, the United States Congress passed the Pittman Act, which authorised the sale to other Governments of silver not exceeding 350,000,000 silver dollars from the holding in the dollar reserve. Of this amount the Government of India acquired 200,000,000 fine ounces at 101½ cents per fine ounce. The following table shows the amount of silver purchased by the Secretary of State:—

	In open market (standard ounces).	From the United States Dollar Reserve (equivalent in standard ounces).
1915-16	8,636,000	—
1916-17	124,535,000	—
1917-18	70,923,000	—
1918-19	106,410,000	152,518,000
1919-20	52,200,000	60,800,000

(*d*) *Measures for conservation and economy of silver.*—These special measures for obtaining silver were supplemented by endeavours to protect the currency against depletion by export or melting. From the 29th June, 1917, the use of silver or gold coin for other than currency purposes was made illegal, and from the 3rd September, 1917, the export of silver coin and bullion from India was prohibited except under license. Steps were also taken to economise silver by the issue of Rs. 2½ and Re. 1 notes, and by extending the use of nickel for coin of small denominations.

(*e*) *Acquisition and use of gold.*—(*i*) In order to enable all imported gold to be made available for money purposes, an Ordinance was issued on the 29th June, 1917, requiring all gold imported into India to be sold to Government at a price which, being based on the sterling exchange value of the rupee, took no account of the premium on gold as compared with sterling. The gold so obtained was placed in the Paper Currency Reserve as a backing against the issue of additional notes.

(*ii*) The issue of sovereigns had been stopped shortly after the outbreak of war. To supplement the supply of silver currency, sovereigns to the amount of about £5,000,000 were issued at the beginning of 1917 and sovereigns and gold mohurs amounting to nearly £6,000,000 were issued early in 1918. Arrangements were also made for minting gold mohurs and sovereigns in Bombay early in 1918, but when the supply of silver enabled the full demand for metallic currency to be met by rupees, the coinage of gold was discontinued after 2,110,000 gold mohurs and 1,295,000 sovereigns had been coined.

(*iii*) During the war the amount of gold which could be obtained by India was limited by the restrictions on its export from belligerent countries. The removal of the embargo on the export of gold by the United States Government on the 9th June, 1919, and the freeing of the market for South African and Australian gold enabled India to obtain a larger supply. From the 18th July, 1919, immediate telegraphic

transfers on India were offered against deposit at the Ottawa Mint of gold coin or bullion at a rate corresponding to the prevailing exchange rate. Very little gold was obtained from this source, and the arrangement was terminated on the 15th September, 1919. From the 22nd August, 1919, a limited amount of immediate telegraphic transfers on India were offered weekly for sale by competitive tender in New York, the proceeds of the sales being remitted to India in gold. Towards the end of October the demand for these transfers fell off and the sales were discontinued. Arrangements were also made for the direct purchase of gold in London, the United States and Australia. Finally, on the 15th September, 1919, the rate paid by the Government of India for the acquisition of gold brought into India on private account was fixed so as to include the premium on gold over sterling as measured by the dollar-sterling exchange, and was varied from time to time approximately in accordance with the fluctuations of this exchange. The effect of the change in the basis of the acquisition rate was to re-establish an effective gold point, and to facilitate the import of gold in payment for exports as an alternative to the purchase of Council drafts. In order to make a portion of the gold so obtained available for the use of the public, fortnightly sales of gold were held by Government between September, 1919, and September, 1920. The total quantity of gold sold was 8,060,454 ounces fine.

(*f*) *Increase in the Note Issue.*—The difficulties of obtaining sufficient quantities of the precious metals for coinage purposes, and as backing for the issue of additional notes, made it necessary to increase the fiduciary portion of the note issue. Prior to the war the invested portion of the Paper Currency Reserve was limited by law to 14 crores of rupees. Between November, 1915 and December, 1919, the legal limit of the invested portion of the Reserve was increased to 120 crores. During this period the gross circulation of notes increased nearly threefold, while the percentage of metallic backing decreased by nearly one-half (*vide* Appendix V). The following table shows the growth of the circulation and the changes in the composition of the Reserve:—

(*Lakhs of rupees.*)

Date.	Gross note circulation.	Composition of Reserve.			Total.	Percentage of total metallic reserve to gross note circulation.
		Silver.	Gold.	Securities.		
31st March, 1914 ...	66,12	20,53	31,59	14,00	66,12	78·9
" 1915 ...	61,63	32,34	15,29	14,00	61,63	77·3
" 1916 ...	67,73	23,57	24,16	20,00	67,73	70·5
" 1917 ...	86,38	19,22	18,67	48,49	86,38	43·9
" 1918 ...	99,79	10,79	27,52	61,48	99,79	38·4
" 1919 ...	153,46	37,39	17,49	98,58	153,46	35·8
31st December, 1919 ...	182,91	43,67	39,71	99,53	182,91	45·6

The encouragement of the use of notes by the provision of ample facilities for their encashment had been one of the most prominent features of the currency policy of the Government of India in the years preceding the outbreak of the war, and this policy was continued as long as the supply of rupees was adequate. From 1916, owing to causes already indicated, the absorption of rupees was abnormally large, and the necessity for conserving their reduced stock of rupees forced on the Government a reversal of their previous policy. Facilities for the encashment of notes at district treasuries were in a large degree withdrawn. The conveyance of specie by rail and river steamer was prohibited, and an embargo was placed on its transmission by post.* Later, in January, 1919, owing to the practical administrative difficulties of dealing in full with the demands for encashment at the Currency offices during the busy season, the daily issues of rupees to single tenderers of notes were limited to a figure which made it practicable to satisfy large demands

* The restrictions on the movement of gold were removed in September, 1919.

in part and small demands as a rule in full. The result of these restrictions was the substitution to a large extent of notes for rupees as the common circulating medium.

8. *Babington-Smith Currency Committee.*—On the 30th May, 1919, a Committee presided over by Sir Henry Babington-Smith was appointed by the Secretary of State to advise in regard to the future of Indian Currency and Exchange. The terms of reference were as follows:—

"To examine the effect of the war on the Indian exchange and currency system and practice, and upon the position of the Indian note-issue, and to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard."

9. The main facts of the position when the Babington-Smith Committee reported were as follows: Council Drafts were being sold by competitive tender, subject to a minimum rate, at the time 2*s.* 4*d.* sterling, the amount being fixed weekly by the Secretary of State. It had been announced that reverse immediate telegraphic transfers would be sold at the rate of 2*s.* $3\frac{29}{32}$*d.* if the demand for them should arise. All gold imported into India had to be sold to Government at a prescribed price. The rate fixed contained an allowance to cover the premium on gold over sterling. With a free market for gold this import acquisition rate, which was varied from time to time in accordance with the movement of the dollar-sterling exchange, fixed an upper gold point which tended to prevent the rate bid for Council Drafts from rising above the minimum rate by much more than the cost of shipping gold, except possibly for short periods when the demand for remittance was urgent. The rate in force for the sale of Reverse Councils fixed a limit to the fall of exchange so long as the means for meeting them were available.

The sovereign was still legal tender in India for Rs. 15 and the Government was under an obligation to pay Rs. 15 for sovereigns presented for encashment. As, however, the bazaar price of gold was considerably above this parity, sovereigns had disappeared from circulation and were not being issued by Government. The import and export of silver had been prohibited, and its price was at a level which prevented purchases by the Secretary of State for coinage except at a loss. The restrictions on the encashment of notes referred to in paragraph 7 (*f*) were still in force.

IV.—Recommendations of the Majority Report of the Babington-Smith Currency Committee.

10. The principal recommendations contained in the Majority Report of the Babington-Smith Currency Committee were as follows :—

(*a*) That the rupee, unchanged in weight and fineness, should remain unlimited legal tender;

(*b*) That the rupee should have a fixed exchange value and that this exchange value should be expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, *i.e.*, one-tenth of the gold contents of the sovereign;

(*c*) That the sovereign previously rated by law at rupees 15 should be made legal tender in India at the revised ratio of rupees ten to one sovereign;

(*d*) That the import and export of gold into and from India should be freed from Government control as soon as the change in the statutory ratio had been affected, and that a Gold Mint at Bombay should be opened for the coinage into sovereigns of gold tendered by the public;

(*e*) That the notification of Government undertaking to give rupees for sovereigns should be withdrawn;

(*f*) That the prohibition of the private import and export of silver should be removed and that the import duty on silver should be repealed unless the fiscal position demanded its retention;

(*g*) That the constitution and location of the paper currency reserve should be as follows :—

(i) The fiduciary portion should not exceed 60 per cent. of the gross circulation;

(ii) The holding of securities issued by the Government of India should not exceed 20 crores;

(iii) The remainder of the fiduciary portion of the reserve should consist of securities of other Governments within the British Empire redeemable at a fixed date, of which all except 10 crores should be short-dated securities maturing within one year;

(iv) The permissive maximum of 120 crores of securities then existing should be retained for a limited period;

(v) The metallic portion of the reserve should be held in India except for transitory purposes; and

(vi) With a view to meeting the seasonal demand for additional currency it should be possible to issue 5 crores of notes over and above the normal fiduciary issue as loans to the Presidency Banks on the security of export bills;

and (*h*) That the Gold Standard Reserve should contain a considerable proportion of gold and the aim should be to hold the remainder of the reserve in securities issued by Governments within the British Empire (other than the Government of India) maturing within twelve months. A portion of the gold held in the reserve, not exceeding one-half, should be held in India.

The recommendation to fix the exchange value of the rupee at 2*s*. gold was qualified by the following remarks :—

"If, contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of production in India fail to adjust themselves with equal rapidity to the lower level of prices, then it might be necessary to consider the problem afresh."

V.—Measures taken by the Government of India to carry out the recommendations of the Committee.

11. The recommendations of the Majority Report were accepted by the Secretary of State as expressing the goal towards which Indian administration should be directed and steps were promptly taken to reach this goal. The following is a brief summary of the measures taken :—

12. *Control of exchange.*—In January, 1920, the flow of remittance had changed its direction, the demand for Council drafts had ceased, and a strong demand for Reverse drafts had started. During January the drafts had been sold at a rate based on the rate of 2*s*. 4*d*. which had been fixed for the sale of Council drafts, but in accordance with the Committee's recommendations the rate from the 5th February was founded on the ratio of Rs. 10 to the sovereign, allowance being made for the depreciation of sterling on the basis of the latest current rate for the dollar-sterling exchange. The rate for immediate telegraphic transfers was fixed at 2*s*. 8$\frac{15}{16}$*d*. on the 5th February and was raised to 2*s*. 10$\frac{27}{32}$*d*. on the 12th February, but thereafter the rate decreased as sterling appreciated. The stimulus to remittance afforded by the high rates offered, which were throughout on a higher level than the rate for bank remittances, led to tenders largely in excess of the amounts offered. By the end of June the balance of trade had begun to turn against India, with the result that the market rates of exchange had not merely departed from the parity of gold but had fallen below the parity of 2*s*. Consequently, at the sale of the 24th June and subsequent sales the rate adopted for immediate telegraphic transfers was 1*s*. 11$\frac{19}{32}$*d*., this representing the rate which would ultimately hold when sterling returned to parity with gold. Applications still continued to be enormously in excess of the amounts offered, since the ever increasing balance of trade against India led to progressive reduction of the market rate for remittances. At the end of September sales of Reverse drafts since the beginning of the year had totalled £55,382,000 and the note circulation between the 1st February and the 15th September had been reduced from Rs. 185 crores to Rs. 158 crores. But even this substantial withdrawal of currency proved ineffective to maintain exchange in view of the abnormal activity in the imports of foreign goods and the absence of any support from exports. The Government of India, therefore, decided after the sale of the 28th September, 1920, to withdraw their offer of sterling drafts on London. Since that date no attempt has been made by Government to prevent exchange falling by the sale of Reverse drafts.

13. *Change in the legal tender value of the sovereign.*—(i) The internal ratio of one sovereign for Rs. 10 could not be effectively introduced so long as gold bullion

in India continued to command the high premium over the price indicated by the ratio recommended by the Committee. With the object of reducing this premium on gold it was announced in February, 1920, that during the ensuing six months a minimum of 15 million tolas of fine gold would be sold, but this original programme was extended by further sales in August and September.

(ii) By Ordinance No. III of 21st June, 1920, sovereigns and half sovereigns ceased to be legal tender in payment or on account, but provision was made for their acceptance by Government at the ratio of Rs. 15 during a moratorium of 21 days, on the expiry of which the restrictions on imports of British gold coin were also withdrawn. The sovereigns and half sovereigns tendered at the currency offices and treasuries in the 21 days during which the moratorium continued amounted to about £2½ millions.

(iii) Finally, the Currency Committee's recommendation that the sovereign should be made legal tender in India at Rs. 10, instead of Rs. 15, was given effect to by the Indian Coinage (Amendment) Act, No. XXXVI of 1920, which received the assent of the Governor-General on the 9th September, 1920. This Act restored the legal tender character of the sovereign and half sovereign which had been suspended by Ordinance No. III of the 21st June, 1920. The rate fixed by the new Act was Rs. 10 to the sovereign, and instructions were accordingly issued to treasuries and currency offices that sovereigns and half sovereigns if presented should be received at the rate of Rs. 10 and Rs. 5 respectively, but that they should not be issued. As the market price of the sovereign has been continuously above Rs. 10, it has never functioned as currency at the new ratio. It was therefore unnecessary to open a gold mint in Bombay.

14. *Abolition of War-time Restrictions.*—In February, 1920, the prohibition on the import of silver was removed and the import duty of 4 annas per ounce was abolished. The notifications under the Defence of India Act, which prohibited the use of gold and silver coin otherwise than as currency, or dealing therein at a premium, were also cancelled. The fall in the price of silver and the return of silver coin from circulation which commenced in May, 1920, rendered possible the removal of the remaining war-time restrictions on the movements of precious metals. On the 18th June, 1920, the restrictions imposed on the transit of silver by rail and boat in India were removed, and on the 20th July the prohibition on the export of silver bullion and coin from British India was cancelled. On the 21st June the restrictions on the import of gold bullion and foreign coin were removed. Further, on the 25th June the restrictions (which had only been partial) on the use of silver for making payments on behalf of Government were withdrawn and Treasury Officers were instructed that payments on behalf of Government should in future be made in the form of currency which the payee desired. At the same time, a step was taken in the direction of renewing the extra legal facilities which had previously been granted of giving silver at treasuries in exchange for notes. The instructions to Treasury Officers were that they should, so far as their resources permitted, give silver in exchange for small value notes if presented in reasonably small quantities, and also where special arrangements had been made with branches of the Presidency Banks to carry on exchange transactions with the public, those facilities, where they had lapsed during the war, should be again restored. So far, therefore, as silver is concerned, the recommendations of the Currency Committee were fully given effect to before the end of 1920.

15. *Reconstitution of the Paper Currency Reserve.*—In March, 1920, in view of the large sales of Reverse councils which the Secretary of State was unable to meet entirely from his treasury balances, he was compelled to begin selling out the sterling securities in the Paper Currency Reserve. In the absence of special legislation permitting increased investments in Indian securities, it would have been necessary to cancel notes to the full rupee equivalent of the sterling securities sold. As such action would have caused a severe monetary crisis in India, temporary legislation was passed in March, 1920, continuing the then existing figure of Rs. 120 crores as the limit of permissible investment, but abolishing the restrictions as to the locale of the investments and their sterling or rupee character. This Act (No. XXI of 1920) remained in force up to the 1st October, 1920, when it was replaced by the Indian Paper Currency Amendment Act (No. XLV of 1920), which practically gave effect to the recommendations of the Currency Committee regarding the eventual statutory constitution of the Paper Currency Reserve, while providing for a temporary transitional period of adjustment. The Act provided in the first place for the issue of currency notes against sovereigns and

half-sovereigns at the new rate of Rs. 10 per sovereign and against gold bullion at the corresponding rate of one rupee for 11·30016 grains troy of fine gold. In the second place it laid down the permanent constitution of the Reserve as follows :—

(*a*) The Metallic Reserve, consisting of the total amount represented by the sovereigns, half-sovereigns, rupees, silver half-rupees, and gold and silver bullion for the time being held on that account by the Secretary of State for India in Council and by the Governor-General in Council, provided that the gold coin and bullion held by the Secretary of State in the metallic reserve shall not exceed Rs. 5 crores in value.

(*b*) The Securities Reserve, consisting of the securities for the time being held on that account by the Secretary of State for India in Council and the Governor-General in Council; provided that—

(i) the securities held by the Secretary of State shall not be of longer maturity than one year from the date of purchase, and

(ii) the securities held on behalf of the Governor-General in Council shall be securities of the Government of India and shall not exceed in amount Rs. 20 crores. Not more than Rs. 12 crores of this amount may be in securities created by the Government of India and issued to the Controller of the Currency.

Further, the Act prohibited the issue of currency notes if such issue would have the effect of raising the amount of notes in circulation to more than twice the amount of the metallic reserve. This statutory constitution of the Paper Currency Reserve was to be brought into force on a day appointed by the Governor-General in Council as soon as conveniently may be after the relation of the amount of the currency notes in circulation to the amount of the Reserve had been brought intc conformity with the provisions above outlined and the metallic reserve was not less than 50 per cent. of the currency notes in circulation. During the intermediate period the Act provided for a temporary constitution of the Reserve under which the securities of the Government of India held in the Reserve was limited to Rs. 85 crores, and so long as the " created securities " exceed Rs. 12 crores, all interest derived from the securities in the Reserve was with effect from the 1st April, 1921, to be applied in reduction of such excess holdings. This latter provision has, however, been suspended during the last three years by sanction of the Legislature in the annual Finance Bills, and such interest has been taken to revenue. Similarly when the holdings in the Gold Standard Reserve exceeded £40 millions in 1921-22, and 1922-23, the excess was taken in deduction of the created securities in the Paper Currency Reserve, but in later years this also has been taken to revenue.

Further, the Act gave power to the Governor-General in Council to issue currency notes up to Rs. 5 crores in value against Bills of Exchange maturing within 90 days from their date of issue and under such conditions as the Governor-General in Council may under general or special order prescribe.

As a result of the passing of the Act, the gold and the sterling securities held in the Paper Currency Reserve were revalued on the 1st October at the new rate of Rs. 10 per sovereign, or Rs. 1 for 11·30016 grains of fine gold. The deficiency in the Reserve resulting from the revaluation was made up by 12 months' Treasury Bills of the Government of India issued to the Reserve.

16. *Constitution of the Gold Standard Reserve.*—With the abandonment of any attempt to stabilise the rupee, and in view of the existence of a wide range of British Government securities with a free market maturing within 10 years, it was decided in July, 1923, that while the Gold Standard Reserve aggregated £40 million, £30 million should be held in securities not exceeding two years' maturity and the balance of £10 million should be invested in securities whose currency did not exceed 10 years. Later in order to suit the requirements of the moment and the probable course of markets, it was decided that of the total reserve aggregating £40 million, £20 million should be in securities not exceeding 2 years' maturity (largely 3 months' Treasury Bills) and £20 million in securities of longer date not exceeding 10 years, subject to the condition that of these latter, £10 million shall not exceed 5 years' maturity. The average interest yield on the Gold Standard Reserve investments during 1923-24 and 1924-25 was between 3 and 3½ per cent.

VI.—Exchange and Monetary Policy after the Abandonment of the Attempt to Stabilise the Rupee at 2s.

17. For the first two years, after the failure of the attempt to stabilise the exchange at 2*s.* gold, the Government had perforce to be content with taking such action as was within their power to prevent exchange from falling below even 1*s.* 4*d.* sterling. The necessity for financing considerable Budget deficits and a large programme of new capital expenditure, Central and Provincial, had, as was inevitable, some inflationary effect on currency and credit. With world prices of commodities in terms of gold falling rapidly, and sterling prices even more rapidly owing to the steps taken in England to bring sterling gradually towards parity with gold, the sterling value of the rupee was naturally driven downwards in the absence of any corresponding action to bring about a fall in rupee prices. All that the Government were able to do during this period was to prevent a rise in Indian prices which would have been caused by any further inflation of the currency, and to begin contracting the currency to an extent sufficient to bring back exchange towards 1*s.* 4*d.* sterling. Reference is invited here to Appendix III which gives the absorption of different forms of currency by the public in different years. During the years now under consideration gold coin may be omitted, since gold did not function as currency, and it may be assumed that the gold coin shown as absorbed (which is mainly the net import into India) has been melted, or used as ornaments, or placed in hoards. Omitting gold from consideration, the net contraction of the currency in the year 1920-21 was 31 crores 58 lakhs. This contraction was in fact insufficient to check the downward fall of the rupee, which fell as low as 1*s.* 3*d.* (*vide* Appendix No. VI). The contraction of the currency was continued in 1921-22 and 1922-23 by the transfer of sterling securities held in London to the Secretary of State's cash balance and by the discharge of Indian Treasury Bills held in the Reserve. The net contraction made in these two years as shown in Appendix III was 1,11 lakhs and 5,69 lakhs respectively. Two crores of seasonal currency were added and withdrawn during this period. Similar issues and withdrawals of seasonal currency were made in the following years and are separately dealt with in a later portion of this memorandum, since they do not represent permanent additions to the currency.

18. Since January, 1923, by which time the rate of 1*s.* 4*d.* sterling was practically restored, exchange has been on the whole moving upwards. Partly owing to the cessation of the downward movement of world prices in 1923 and 1924, but mainly owing to their control of the local financial situation, the Government of India were able (with the help of good monsoons) to take action of a kind which had the natural result of improving the exchange value of the rupee. Perhaps it would be truer to say that, owing to their success in balancing their Budget and in raising loans in the market sufficient both to meet their capital expenditure and to pay off practically all their floating debt, the Government have been able to avoid any action tending in the direction of expansion of currency and credit, except to a limited extent with the object of preventing undue stringency in the money market. It was with the latter object that a net addition of 6,15 lakhs was made to the currency in 1923-24, by increasing the sterling investments in the Paper Currency Reserve, the net addition to the currency in that year, as shown in Appendix III, being 15,58 lakhs.

Exchange reached the level of 1*s.* 6*d.* sterling in October, 1924, at which time it was equivalent approximately to 1*s.* 4*d.* gold. The action taken by the Government of India since that time has prevented the rise of the rupee above 1*s.* 6*d.* sterling (more recently above the upper gold point of approximately 1*s.* 6$\frac{3}{16}$*d.*). In order to attain this result, the purchases of sterling required for Government remittances, and when necessary, in excess of this, have been freely used. During 1924-25 a further amount of 6,00 lakhs was added to the currency by increasing the sterling investments in the Paper Currency Reserve, and in view of possible emergencies the Indian Paper Currency Act was amended in February, 1925, so as to increase the permissible limit of the holding of securities in the Reserve from 85 to 100 crores provided that the total amount of "created" securities of the Government of India shall not exceed 50 crores. It has, however, so far not been necessary to use the additional powers given by this amendment.

Between 1st April and 30th September, 1925, purchases of sterling have totalled approximately £21 million, which is two-thirds of the total amount of Government remittances required for the whole financial year, as estimated in the Budget, and in October the policy of increasing the note issue against an

increase of sterling securities was again resorted to. Two crores have been added in this way at the time of writing. The exchange value of the rupee has remained practically steady during the last 12 months, while the simultaneous rise in the sterling dollar exchange has made 1*s*. 6*d*. sterling approximately the same as 1*s*. 6*d*. gold.

VII.—Seasonal Currency.

19. Reference was made in a previous section to the new provision in the Paper Currency Act under which the Governor-General in Council could issue currency notes up to Rs. 5 crores against bills of exchange. Resort was not made to this provision during the season of 1920-21 and in fact detailed regulations were not issued till the 16th February, 1922. These regulations consisted of :—

(1) statutory conditions which the Governor-General in Council had to prescribe under the Act for the issue of notes.

(2) detailed procedure to be adopted in actual practice in that connection.

The conditions prescribed were:—

(i) The bills of exchange shall be internal bills or *hundis* drawn for trade purposes.

(ii) If the documents themselves do not bear any evidence of being drawn for such purposes, the Imperial Bank of India shall certify that, to the best of its knowledge, the accommodation provided for is for the furtherance of trade.

(iii) The bills shall remain in the custody of the Imperial Bank of India as securities held on behalf of the Currency Department and shall, if the Controller of the Currency so requires, be endorsed by the Bank to the Controller.

The procedure laid down for the issue of notes is described in Appendix IX. The rate of interest to be charged to the Bank was originally fixed as not less than 8 per cent. This condition, however, was subsequently modified, as shown later in this Memorandum.

20. It will be observed from these rules and regulations, which were laid down after consulting commercial opinion in the country, that the idea of basing the new procedure on export and import bills did not find favour, the reasons being :—

(1) There appeared to be no necessity for providing additional facilities for financing export bills, as by the time produce is shipped it is usually already paid for. The pressure for additional finance occurs more often than not in connection with the movement of produce from upcountry to the ports, before the export bills founded on such produce are drawn. When they are actually under export, the exchange banks are usually quite competent to arrange for financing them, and if they find that import cover is insufficient, they can lay down funds in India by Councils, and no emergency currency is necessary. Besides, there is a practical difficulty in that the large majority of export bills, especially in Calcutta, are sight bills and are received by the banks in very considerable numbers just in time to catch the weekly mail. If they have to be endorsed to the Imperial Bank before being forwarded to London, they would invariably miss the mail, not only entailing on the banks the loss of a week's interest but involving the possibility of the goods arriving at the port of destination before the bills of exchange.

(2) As regards the extension of the scheme to import bills, the bulk of this class of bills are drawn " D-P " (documents on payment) and may be repaid at any time during their currency. It is not uncommon, for these bills to become past due as certain classes of importers treat the due date with indifference. It would be impossible for the Imperial Bank to deal with a number of such documents, the payment of which is so uncertain.

(3) Practically all external bills, whether export or import bills, would be expressed in sterling or other foreign currencies, and the acceptance of such bills will complicate the procedure by the introduction unnecessarily of the fluctuations of exchange and the risks thereof.

The Babington-Smith Committee, though recommending that the notes should be issued only against export bills on the inception of the scheme, did not definitely

pronounce against the use of internal bills as collateral provided that it proved possible to distinguish between internal bills representing genuine commercial transactions and bills created for purposes of finance or speculative operations. After consulting representative bodies in India, the Government of India came to the conclusion that as the names upon internal bills were well known to the discounting banker, it would not be difficult to differentiate between these classes of bills, and it was, therefore, provided that if the documents did not bear any evidence of being drawn for trade purposes, they should be endorsed by the Imperial Bank who should certify that, to the best of their knowledge, the accommodation provided was for the furtherance of trade.

As regards the rate of interest, the Government of India carefully considered the arguments against fixing a high rate and those in favour of leaving the rate to be fixed at the discretion of the authorities at the time the loans were applied for. They felt that it was necessary to restrict the issue of the seasonal currency to cases of proved and actual stringency, and that loans should not be granted at a lower rate than 8 *per cent.*

21. Appendix VIII gives the loans taken by the Imperial Bank from the beginning up to date and also shows the Bank rate and the cash position of the Bank at the time when the loans were taken or repaid. The experience of the first two years' working and the rapidity with which the Bank rate rose at the beginning of the busy season in each of these years showed that the objects of the new provisions, which were to introduce a much-needed elasticity into the Indian currency system, were not being fully achieved, and that, in order to anticipate and prevent monetary stringency, facilities should be afforded for making additional currency available when there was a genuine trade demand of a seasonal and temporary character and for automatically retiring it when that demand ceased. The Act was accordingly amended during 1923-24 raising the maximum limit of seasonal issue from 5 to 12 crores. A modification was also introduced in the procedure in regard to the issue of the currency notes so as to provide that loans shall be admissible as soon as the Bank rate rises to 6 *per cent.* and that the entire amount of loans outstanding at any time should bear interest at current Bank rate subject to the following minimum rates :—

6 *per cent.* for the first 4 crores,

7 *per cent.* for the second 4 crores, and

8 *per cent.* for the last 4 crores.

22. The events of the busy season 1923-24 proved that the foregoing changes were very timely. The latter part of the year witnessed exceptionally stringent conditions in the money market. The demand for financing the cotton crop set in in November and the outflow of cash necessitated the raising of the Bank rate to 5 *per cent.* on the 15th November, 6 *per cent.* on the 29th November, 7 *per cent.* on the 20th December, and 8 *per cent.* on the 3rd January, while special additions to the Bank's cash balances were made during this period of 8 crores against loans from the Currency Department and a further 12 crores in the form of currency notes issued against British Treasury Bills deposited in the Paper Currency Reserve in London. Owing to a good crop and high prices for raw cotton, combined with a brisk demand for financing the rice and other crops, the drain on the cash resources of the Bank continued to be heavy and the Bank rate was raised to 9 *per cent.* from the 14th February. From then till the end of the year the rate for call-money stood at no less than 9 *per cent.* and further loans were obtained from currency to the extent of four crores in January and February, thus exhausting the assistance available from this source. There was no material improvement in the money position until after the close of the financial year. The return of cash to the Bank was very slow and the withdrawal of 12 crores of seasonal currency issued during the busy season proved to be a slow and difficult process and was not completed until the 21st June.

23. In view of the severe stringency of money which prevailed during the busy season of 1923-24, it was necessary to consider whether the existing machinery for the provision of currency to meet the demands of trade was adequate and, if not, in what directions it should be improved. The important point which the working of the enhanced limit for seasonal currency during the season of 1923-24 brought out was that the present system of giving loans to the Imperial Bank against inland bills of exchange was unsatisfactory. Most of the internal trade of India is financed by a system of cash credits or by the advance of money on demand promissory notes signed by two or more persons unconnected in general

partnership, with collateral security, where necessary, and the extent to which *hundis* or internal bills of exchange are used is very limited. Normally the amount of genuine *hundis* which the Imperial Bank has outstanding during the busy season is 4 to 5 crores only. In order to obtain the full amount of loans from currency, the Bank has had to increase its holding of bills by inducing firms and individuals, who would ordinarily have cash credits, to take their loans on bills and the Imperial Bank have themselves been constrained to pay the stamp duty on such bills. These bills are, in effect, manufactured bills and do not in any way correspond to the self-retiring bills which form the basis of the Federal Reserve note system of America on the analogy of which the provisions in regard to seasonal currency have been introduced in India. Besides, there were further difficulties in renewing these created bills as they fell due, and the Imperial Bank had to request the firms to renew them in order that they might obtain a sufficient holding of bills.

The Imperial Bank therefore pointed out that in regard to the loans taken during the busy season of 1923-24 the rates of interest charged by the Government actually resulted in a loss to them, as they had to bear the stamp duty on the bills. Also as a result of the change in procedure fixing varying rates of interest on the loans from currency, if the Bank, for example, took 4 crores when the rate was 6 *per cent.* and 4 crores when the rate was 7 *per cent.* the entire 8 crores would bear interest at 7 *per cent.* from the date on which the Bank rate was raised to that figure. If it was found expedient to lower the Bank rate to 6 *per cent.* when, say, 5 crores were outstanding, the Bank would have to pay interest on 4 crores at 6 *per cent.* and on 1 crore at 7 *per cent.* whereas they would be realising no more than 6 *per cent.* on the entire amount.

Pending review of the whole question of the seasonal currency by the Currency Commission, the Government of India took the following steps to allay the apprehensions in business circles as to the possibility of extreme stringency in the busy season of 1924-25 :—

They announced in September, 1924, that as far as might be necessary, they would use their powers to issue currency against Treasury Bills deposited in the Paper Currency Reserve in London, and would, if necessary, introduce legislation to increase the legal limit of the holding of securities in the Paper Currency Reserve. This, as already stated in the preceding section, was done in February, 1925. A further announcement was also made early in September, 1924, changing the rules under which loans were made to the Imperial Bank from Currency so as to make it possible for the Bank to borrow 4 crores when the Bank rate is at 6 *per cent.* and 8 crores when the Bank rate is at 7 *per cent.* instead of 4 crores at each rate from 6 to 8 *per cent.* As regards the loss entailed on the Bank, the Government of India agreed, as a temporary measure, to repay the Bank their out-of-pocket expenses in respect of stamp duty.

VIII.—The Imperial Bank of India.

24. This historical sketch would be incomplete without a reference to one event of great importance in recent years, namely, the formation of the Imperial Bank of India on the 27th January, 1921. Under the Imperial Bank of India Act (XLVII of 1920) the three Presidency Banks of Bengal, Bombay and Madras were amalgamated. The Act also provided for an agreement between the Bank and the Secretary of State and this agreement, which was signed on the 27th January, 1921, and is for a period of 10 years in the first instance, provided *inter alia* for the following important matters from the point of view of Indian Currency and finance :—

(i) All the general banking business of the Government of India was to be carried out by the Imperial Bank, all the Treasury balances at Head-quarters and at its branches being held by the Bank. It will be remembered that the Chamberlain Commission held that the stringency which occurred annually in the Indian money market was partly due to the independent Treasury system of the Government of India and they in fact recommended the closing of the Reserve Treasuries, if possible. The transfer of the treasury business to the Bank at all places where there are branches of the Imperial Bank led firstly to the abolition of the Reserve treasuries and secondly to a larger proportion of Government balances being placed at the disposal of the Bank for assistance to the money market.

(ii) Within five years of its inauguration, the Imperial Bank undertook to open 100 new branches. In view of the extensive use in India of the precious metals, as a store of value, due largely to the inadequacy of the facilities for the disposal of savings in a manner which will enable them to be used productively, the Babington-Smith Committee recommended the extension of the activities of the newly amalgamated Bank by the active pursuit of the policy of opening new branches. Up to the 31st March, 1925, 80 new branches had been opened and arrangements have been made to complete the programme by the due date. With the object of spreading the use of banking facilities and of bringing in money which has hitherto lain dormant, the Bank allows 4 *per cent.* on ordinary savings bank deposits and 4½ *per cent.* on savings bank deposits of Rs. 10,000 and above, fixed for 3 months. As a result there has been a remarkable increase in the amount of the savings bank deposits, from Rs. 412 lakhs at the inception of the Bank to Rs. 10,79 lakhs on the 31st March, 1925.

(iii) The Bank also undertook to give the public every facility for the transfer of money between its Local Headquarters and branches at rates not exceeding certain maximum rates fixed by the Controller of the Currency. These rates were originally fixed at 1 anna per cent. for transfers of amounts of Rs. 10,000 and over, and 2 annas per cent. for amounts of Rs. 1,000 and over but less than Rs. 10,000. For amounts less than Rs. 1,000, the rates were left at the discretion of the Bank. Recently in order to assist other banks and to encourage them to effect their transfers through the Imperial Bank, the rate for Banks for amounts over Rs. 10,000 has been reduced to half anna per cent. App. XI gives the amount of demand drafts purchased and drafts and telegraphic transfers paid in each circle of the Bank from 1920 onwards. The figures show a large progressive increase in the use by the public of the facilities offered by the Bank.

IX.—Special features of recent years.

25. *Government remittances. Purchases of sterling in India.*—An important change has been introduced with effect from 1923-24 in the mechanism by which remittances of funds are effected by Government from India to meet their disbursements in London, which has been made possible largely owing to the existence of a Central Bank. The normal method had till then been the sale by tender in London once a week by the Secretary of State in Council of rupee bills or telegraphic transfers on the Government of India, supplemented by sales of intermediates at higher rates between the weekly sales. While the weekly sales in London continued as hitherto, the purchase of sterling in India from Exchange Banks and recognised firms through the agency of the Imperial Bank was substituted in 1923-24 for sales of intermediates by the Secretary of State. This system was further extended last year when purchase of sterling was the main method of remittance, the weekly sales of Councils being started only when a steady continuous demand for rupees appeared. The object underlying the change was that the factors influencing the immediate course of exchange could be gauged more accurately and more promptly in India and by regulating the purchases with reference to the varying conditions of the market, the operations of Government could be conducted so as to avoid violent fluctuations in rates with benefit both to trade and to the country generally. App. XI shows clearly the operation of the new system. As will be seen from that, in the early part of 1924-25 the upward rise of exchange was only steadied by Government purchases at each successive rate and from October 1924 onwards when exchange had reached 1*s.* 6*d.* the readiness of Government to purchase large sums near this rate has kept exchange comparatively stable.

26. *Balance of Trade: Imports of Bullion.*—Attention is also invited to the figures given in App. II which show for each year since 1898-99 the exports and imports of merchandise from and into India and the net imports of gold and silver. The large favourable balances during and immediately after the war, which reached their maximum in 1919-20, were abruptly reversed in 1920-21. The balance of trade (so far as revealed by these figures) continued against India in 1921-22, but since that time there have been large and increasing favourable balances, offset however by large imports of the precious metals. The net imports of gold in 1924-25 were no less than 73,78 lakhs and the imports of silver coin and bullion (viz., 20,06 lakhs) were also the largest on record. Of the gold imported,

14,50 lakhs represent imports of gold coin, but since gold is not functioning as currency, this represents no addition to the currency in circulation. The gold coin as well as the gold and silver bullion has probably to a large extent been substituted for rupees as a store of value with the result that a large quantity of rupees must have been released from hoards and added to the circulation. This to some extent may account for the fact that the net absorption of rupees by the public in 1924-25 (as shown by Appendix III) was 3,65 lakhs only, in spite of the fact that the abolition of the one-rupee note, which was carried out in accordance with the recommendation of the Inchcape Committee, the stock being practically exhausted by September, 1925, might have been expected to lead to an increase in the absorption of coin.

27. *Course of Prices.*—The course of gold, sterling and rupee prices is shown in the Appendix No. VII, which also gives the exchange value of the rupee expressed in sterling and in gold at the corresponding dates from January, 1920, up to October, 1925. From the beginning of the year 1922 till the end of 1924, Indian prices remained remarkably steady. Since January, 1925, however, there has been a downward movement, which is in fairly close harmony with the renewed downward movement in sterling prices.

APPENDICES.

I.—Average rates of sale of Council Drafts, 1873–74 to 1892–93.

II.—Exports and Imports of Merchandise : Net Imports of Gold and Silver : Sales of Council Drafts and Reverse Drafts from 1898–99 to 1924–25.

III.—Absorption of Currency by the Public, 1898–99 to 1924–25.

IV.—Highest and lowest prices in London of Standard Silver per standard ounce annually from 1893 to 1915, monthly from January 1916 to December 1921, and annually from 1922 to 1925.

V.—Composition of Indian Paper Currency Reserve on the last day of each month from March 1914 to October 1925.

VI.—Statement of highest and lowest market prices of Telegraphic Transfers in Calcutta on London, from January 1920.

VII.—Statement comparing movements of gold, sterling and rupee prices and course of exchange since January 1920.

VIII.—Statement showing loans taken by the Imperial Bank from Currency and the Bank rate and cash position of the Bank when the loans were taken and repaid.

IX.—Memorandum of procedure now in force for the issue of currency notes against bills of exchange.

X.—Statement giving the amount of demand drafts purchased and drafts and telegraphic transfers paid in each circle of the Imperial Bank from 1920.

XI.—Statement giving daily figures of sterling purchases in India from 1923–24 together with figures of Council sales.

APPENDIX I.

Average rate at which the Secretary of State for India sold Bills and Telegraphic Tranfers on India in each year from 1873-4 *to* 1892-3.

Year.	*Average Rate obtained.* s.	d.	*Year.*	*Average Rate obtained.* s.	d.
1873-4	1	10·351	1883-4	1	7·536
1874-5	1	10·156	1884-5	1	7·308
1875-6	1	9·626	1885-6	1	6·247
1876-7	1	8·508	1886-7	1	5·441
1877-8	1	8·791	1887-8	1	4·898
1878-9	1	7·794	1888-9	1	4·379
1879-80	1	7·961	1889-90	1	4·566
1880-1	1	7·956	1890-1	1	6·099
1881-2	1	7·895	1891-2	1	4·733
1882-3	1	7·525	1892-3	1	2·982

Appendix II.

Exports and Imports of Merchandise; Net Imports of Gold and Silver; Sales of Council Drafts and Reverse Drafts 1898–99 *to* 1924–25.

Year.	Exports and imports of Merchandise on Private Account (in lakhs of rupees).			Net Imports of Treasure on Private Account (in lakhs of rupees).			Government remittances to London.	Average Rates.	Sales of Reverse Drafts.	Average Rates.
	Exports.	Imports.	Net Exports.	Gold Coin and Bullion.	Silver Coin and Bullion.	Total.				
							£	s. d.	£	s. d.
1898–99	1,12,72	68,38	44,34	6,05	3,97	10,02	18,883,900	1 3·972	—	—
1899–00	1,08,98	70,71	38,26	9,44	3,57	13,01	18,703,800	1 4·069	—	—
1900–01	1,07,37	76,28	41,59	7,57	1,42	8,99	12,824,500	1 3·981	—	—
1901–02	1,24,46	81,52	42,95	5,04	6,25	11,29	18,535,800	1 3·982	—	—
1902–03	1,28,82	78,79	50,03	9,47	6,98	16,45	18,724,000	1 4·002	—	—
1903–04	1,52,96	84,82	68,18	16,33	7.46	23,79	23,784.500	1 4·047	—	—
1904–05	1,57,50	96,68	60,82	18,11	6,94	25,05	24,150,000	1 4·046	—	—
1905–06	1,61,71	1,03,08	58,63	9,45	5,02	14,47	31,886,000	1 4·044	—	—
1906–07	1,76,57	1,08,31	68,26	14,94	6,69	21,63	34,069,400	1 4·084	—	—
1907–08	1,77,36	1,29,90	47,46	17,35	10,03	27,38	15,746,700	1 4·031	70,000	1 3·906
1908–09	1,53,03	1,21.27	31,76	4,71	11,96	16,67	13,323,313	1 3·932	7,988,000	1 3·906
1909–10	1,87,88	1,17,06	70,82	21,68	9,37	31,05	27,866,600	1 4·037	156,000	1 3·906
1910–11	2,09,88	1,29,35	80,53	23,98	8,61	32,59	26,389,800	1 4·061	—	—
1911–12	2,27,84	1,38,57	89,27	37,77	5,29	43,06	26,917,500	1 4·084	—	—
1912–13	2,46,55	1,61,02	85,53	37,35	6,57	43,92	25,983,500	1 4·059	—	—
1913–14	2,48,88	1,83,25	65,63	23,32	6,24	29,56	31,200,757	1 4·070	—	—
Average of 5 pre-war years ending 1913–14	2,24,21	1,45,85	78,36	28,82	7,22	36,04	27,671,631	1 4·062	—	—
1914–15	1,81,59	1,37,93	43,66	8,45	10,01	18,46	7,198,205	1 4·009	8,707,000	1 3·878
1915–16	1,97,38	1,31,99	65,39	4,90	5,58	10,48	20,810,257	1 4·083	4,893,000	1 3·906
1916–17	2,45,15	1,49,62	95,53	4,20	—2,16	2,04	31,671,577	1 4·147	—	—
1917–18	2,42,56	1,50,42	92,14	21,46	1,46	22,92	34,865,798	1 4·497	—	—
1918–19	2,53,85	1,69,03	84,82	2	6	8	22,539,438	1 5·499	5,315,000	1 6·016
1919–20	3,26,79	2,00,80	1,25,99	10,97	—15	10,82	31,226,219	1 9·691	24,544,000	2 7·708
1920–21	2,58,05	3,35,60	—77,55	—8,88	7,59	1,29	—	—	30,988,000	2 2·042
1921–22	2,45,44	2,66,34	—20,90	—2,79	14,95	12,16	—	—	—	—
1922–23	3,14,32	2,24,31	90,01	41,18	18,17	59,35	2,570,026	1 4·448	—	—
1923–24	3,61,91	2,17,03	1,44,88	29,19	18,38	47,57	21,838,705‡	1 4·534	—	—
1924–25	3,98,36	2,43,18	1,55,18	73,78	20,06	93,84	40,770,162§	1 6·027	—	—

‡ Includes £13,100,000 at an average rate of 1*s*. 4.750*d*. on account of purchase of sterling.
§ Includes £33,191,000 at an average rate of 1*s*. 5·58*d*. on account of purchase of sterling.

APPENDIX III.

Absorption of Currency by the Public, 1898–99 *to* 1924–25.

(*In lakhs of rupees.*)

Year.	Absorption of Coin.			Absorption of Currency Notes.	Grand Total.
	Rupees.	Sovereigns and Half-Sovereigns.‡	Total.		
1898–99	*—1,61*	—*	*—1,61*	2,52	91
1899–1900 ...	13,93	4,05	17,98	1,72	19,70
1900–01	8,62	3,05	11,67	*—18*	11,49
1901–02	*—68*	1,47	79	30	1,09
1902–03	2	3,23	3,25	2,59	5,84
1903–04	10,97	4,92	15,89	3,28	19,17
1904–05	7,43	4,41	11,84	37	12,21
1905–06	14,50	5,70	20,20	4,16	24,36
1906–07	18,00	7,70	25,70	3,83	29,53
1907–08	3,92	11,08	15,00	*—3,85*	11,15
1908–09	*—14,88*	5,15	*—9,73*	2,35	*—3,78*
1909–10	13,22	4,31	17,53	5,03	22,56
1910–11	3,34	2,15	5,49	19	15,68
1911–12	11,50	13,33	24,83	4,44	29,27
1912–13	10,49	16,65	27,14	2,71	29,85
1913–14	5,32	18,11	23,43	2,65	26,08
1914–15	*—6,70*	8,43	1,73	*—6,01*	*—4.29*
1915–16	10,40	29	10,69	9,23	20,92
1916–17	33,81	3,18	36,99	13,89	50,88
1917–18 ...	27,86	14,26	42,12	17,22	59,34
1918–19	45,02	5,21†	50,23	49,29	99,52
1919–20	20,09	*—3,32*	16,77	20,20	36,97
1920–21	*—25,68*	*—4,38*	*—30,06*	*—5,90*	*—35,96*
1921–22	*—10,46*	2,78	*—7,68*	9,35	1,67
1922–23	*—9,56*	9,43	*—13*	3,87	3,74
1923–24	7,62	6,74	14,36	7,96	22,32
1924–25	3,65	14,53	18,18	*—2,51*	15,67

* Sovereigns were not legal tender this year.
† In addition gold mohurs to the value of 60 lakhs were absorbed during 1918–19.
‡ Sovereigns have been valued at Rs. 15=£1 in the above table.

APPENDIX IV.

Highest and lowest prices in London of standard silver per ounce annually from 1893 to 1915 and monthly from January 1916 to December 1921 and annually from 1922 to 1925.

Year.	Price in Pence.		Year.	Month.	Price in Pence.		Year.	Month.	Price in Pence.		Year.	Price in Pence.	
	Highest.	Lowest.			Highest.	Lowest.			Highest.	Lowest.		Highest.	Lowest.
1893	$38\frac{3}{4}$	$30\frac{1}{4}$	1916	Jan.	$27\frac{5}{16}$	$26\frac{11}{16}$	1919	Jan.	$48\frac{7}{16}$	$48\frac{7}{16}$	1922	$37\frac{3}{8}$	$30\frac{3}{8}$
1894	$31\frac{3}{4}$	27	”	Feb.	$27\frac{1}{8}$	$26\frac{13}{16}$	”	Feb.	$48\frac{7}{16}$	$47\frac{3}{4}$	1923	$33\frac{11}{16}$	$30\frac{1}{2}$
1895	$31\frac{3}{8}$	$27\frac{3}{16}$	”	March	$28\frac{15}{16}$	$26\frac{15}{16}$	”	March	50	$47\frac{3}{4}$	1924	$36\frac{1}{16}$	$31\frac{1}{2}$
1896	$31\frac{9}{16}$	$29\frac{3}{4}$	”	April	$35\frac{1}{8}$	29	”	April	$49\frac{9}{16}$	$48\frac{7}{16}$	1925	$33\frac{7}{16}$	$31\frac{1}{16}$
1897	$29\frac{13}{16}$	$23\frac{3}{4}$	”	May	$37\frac{1}{8}$	$32\frac{7}{8}$	”	May	58	$48\frac{9}{16}$			
1898	$28\frac{5}{16}$	25	”	June	$32\frac{7}{8}$	30	”	June	$54\frac{7}{8}$	53			
1899	$28\frac{7}{8}$	$26\frac{5}{8}$	”	July	31	$28\frac{5}{8}$	”	July	$55\frac{9}{16}$	53			
1900	$30\frac{3}{16}$	27	”	Aug.	32	$30\frac{1}{2}$	”	Aug.	$61\frac{3}{4}$	$55\frac{3}{4}$			
1901	$29\frac{9}{16}$	$24\frac{15}{16}$	”	Sept.	$32\frac{15}{16}$	$32\frac{1}{8}$	”	Sept.	64	59			
1902	$26\frac{1}{8}$	$21\frac{11}{16}$	”	Oct.	$32\frac{7}{8}$	$32\frac{1}{8}$	”	Oct.	$66\frac{1}{2}$	$62\frac{3}{4}$			
1903	$28\frac{1}{2}$	$21\frac{7}{8}$	”	Nov.	$35\frac{15}{16}$	$32\frac{7}{16}$	”	Nov.	76	$65\frac{1}{2}$			
1904	$28\frac{9}{16}$	$24\frac{7}{16}$	”	Dec.	37	$35\frac{13}{16}$	”	Dec.	$79\frac{1}{8}$	$73\frac{1}{8}$			
1905	$30\frac{5}{16}$	$25\frac{7}{16}$	1917	Jan.	$37\frac{7}{16}$	36	1920	Jan.	85	$75\frac{7}{8}$			
1906	$33\frac{1}{8}$	29	”	Feb.	$38\frac{7}{16}$	$37\frac{3}{16}$	”	Feb.	$89\frac{1}{2}$	82			
1907	$32\frac{7}{16}$	$24\frac{3}{16}$	”	March	$37\frac{5}{16}$	$35\frac{11}{16}$	”	March	84	$65\frac{3}{4}$			
1908	27	22	”	April	$37\frac{15}{16}$	$36\frac{9}{16}$	”	April	$72\frac{1}{8}$	$64\frac{1}{2}$			
1909	$24\frac{1}{2}$	$23\frac{1}{16}$	”	May	$38\frac{1}{8}$	$37\frac{3}{4}$	”	May	$65\frac{1}{2}$	$57\frac{5}{8}$			
1910	$26\frac{1}{4}$	$23\frac{3}{16}$	”	June	$39\frac{7}{8}$	38	”	June	$57\frac{5}{8}$	44			
1911	$26\frac{1}{8}$	$23\frac{11}{16}$	”	July	$41\frac{1}{4}$	$39\frac{1}{2}$	”	July	$56\frac{5}{8}$	$51\frac{1}{8}$			
1912	$29\frac{11}{16}$	$25\frac{1}{8}$	”	Aug.	46	$40\frac{1}{8}$	”	Aug.	$63\frac{3}{4}$	57			
1913	$29\frac{3}{8}$	$25\frac{15}{16}$	”	Sept.	55	46	”	Sept.	$60\frac{3}{4}$	$57\frac{5}{8}$			
1914	$27\frac{3}{4}$	$22\frac{1}{8}$	”	Oct.	$48\frac{1}{4}$	$41\frac{7}{8}$	”	Oct.	59	$50\frac{1}{2}$			
1915	$27\frac{1}{4}$	$22\frac{5}{16}$	”	Nov.	$45\frac{3}{8}$	$42\frac{3}{4}$	”	Nov.	$54\frac{5}{8}$	$43\frac{7}{8}$			
			”	Dec.	$43\frac{1}{2}$	$42\frac{3}{4}$	”	Dec.	$44\frac{3}{4}$	$38\frac{7}{8}$			
			1918	Jan.	$45\frac{1}{8}$	$43\frac{1}{4}$	1921	Jan.	$42\frac{1}{2}$	$35\frac{1}{8}$			
			”	Feb.	$43\frac{1}{4}$	$42\frac{1}{2}$	”	Feb.	$37\frac{3}{4}$	$31\frac{3}{8}$			
			”	March	46	$42\frac{1}{2}$	”	March	$34\frac{1}{8}$	$30\frac{5}{8}$			
			”	April	$49\frac{1}{4}$	$45\frac{1}{4}$	”	April	$36\frac{1}{2}$	$32\frac{1}{2}$			
			”	May	$49\frac{1}{4}$	$48\frac{7}{8}$	”	May	$35\frac{1}{2}$	$33\frac{1}{8}$			
			”	June	$48\frac{7}{8}$	$48\frac{7}{8}$	”	June	$35\frac{3}{4}$	$33\frac{1}{2}$			
			”	July	$48\frac{13}{16}$	$48\frac{13}{16}$	”	July	$39\frac{1}{2}$	$35\frac{1}{4}$			
			”	Aug.	$49\frac{1}{2}$	$48\frac{13}{16}$	”	Aug.	$38\frac{7}{8}$	$36\frac{1}{4}$			
			”	Sept.	$49\frac{1}{2}$	$49\frac{1}{2}$	”	Sept.	$43\frac{3}{8}$	$37\frac{3}{4}$			
			”	Oct.	$49\frac{1}{2}$	$49\frac{1}{2}$	”	Oct.	$42\frac{7}{8}$	$39\frac{1}{8}$			
			”	Nov.	$49\frac{1}{2}$	$48\frac{3}{4}$	”	Nov.	$40\frac{1}{2}$	$37\frac{3}{8}$			
			”	Dec.	$48\frac{3}{4}$	$48\frac{7}{16}$	”	Dec.	$37\frac{5}{8}$	$34\frac{1}{2}$			

APPENDIX V.

Composition of the Indian Paper Currency Reserve.

(Figures in lakhs of rupees.)

Last day of Month.	Note Circulation.			Composition of Reserve.												
				Gold.			Silver.			Securities.			Percentage of Gold to Gross Note Circulation.	Percentage of Silver to Gross Note Circulation.	Percentage of Gold and Silver to Gross Note Circulation.	Percentage of Securities to Gross Note Circulation.
											England.					
	Gross.	Net.	Active.	In India.	Out of India.	Total.	Coin.	Bullion.	Total.	India.	Treasury Bills.	Other British Securities.				
1914.																
March	66,12	58,72	49,92	22,44	9,15	31,59	20,53	—	20,53	10,00	—	4,00	47·8	31·0	78·8	21·2
April	65,46	59,31	47,99	20,34	9,15	29,49	21,97	—	21,97	10,00	—	4,00	45·1	33·6	78·7	21·3
May	66,77	59,06	46,79	18,91	9,15	28,06	24,71	—	24,71	10,00	—	4,00	42·0	37·0	79·0	21·0
June	70,26	61,16	46,34	18,00	9,15	27,15	29,11	—	29,11	10,00	—	4,00	38·6	41·4	80·0	20·0
July	75,45	66,28	45,89	18,36	9,15	27,51	33,94	—	33,94	10,00	—	4,00	36·5	45·0	81·5	18·5
August	65,79	61,59	46,40	6,16	7,65	13,81	37,98	—	37,98	10,00	—	4,00	21·0	57·7	78·7	21·3
September	60,52	58,79	46,45	3,92	7,65	11,57	34,95	—	34,95	10,00	—	4,00	19·1	57·7	76·8	23·2
October	60,78	58,82	46,27	6,34	7,65	13,99	32,79	—	32,79	10,00	—	4,00	23·0	53·9	76·9	23·1
November	61,19	59,57	45,13	8,86	7,65	16,51	30,68	—	30,68	10,00	—	4,00	27·0	50·1	77·1	22·9
December	60,83	58,68	44,83	9,31	7,65	16,96	29,87	—	29,37	10,00	—	4,00	27·9	48·3	76·2	24·8
1915.																
January	60,26	56,28	42,06	8,31	7,65	15,96	30,30	—	30,30	10,00	—	4,00	26·5	50·3	76·8	23·2
February	59,55	56,15	43,02	6,71	7,65	14,36	31,19	—	31,19	10 00	—	4,00	24·1	52·4	76·5	23·5
March	61,63	55,65	43,96	7,64	7,65	15,29	32,34	—	32,34	10,00	—	4,00	24·8	52·5	77·3	22·7
April	60,24	56,37	44,14	7,69	7,65	15,34	30,90	—	30,90	10,00	—	4,00	25·5	51·1	76·6	23·4
May	61,99	59,01	45,09	7,75	7,65	15,40	32,59	—	32,59	10,00	—	4,00	24·8	52·6	77·4	22·6
June	66,48	62,82	44,93	7,77	7,65	15,42	37,06	—	37,06	10,00	—	4,00	23·2	55·7	78·9	21·1
July	68,06	60,93	45,07	7,82	6,15	13,97	40,09	—	40,09	10,00	—	4,00	20·5	58·0	78·5	21·5
August	66,41	61,08	45,56	6,34	6,15	12,49	39,92	—	39,92	10,00	—	4,00	18·8	60·1	78·9	21·1
September	63,81	58,81	47,26	5,91	6,15	12,06	37,75	—	37,75	10,00	—	4,00	18·9	59·2	78·1	22·9
October	63,59	59,51	48,76	7,05	6,15	13,20	36,39	—	36,39	10,00	—	4,00	20·8	57·2	78·0	22·0
November	62,06	60,51	49,09	8,31	6,15	14,46	33,60	—	33,60	10,00	—	4,00	23·3	54·1	77·4	22·6
December	62,34	60,99	51,18	12,75	6,15	18,90	29,44	—	29,44	10,00	—	4,00	30·3	47·4	77·7	22·3
1916.																
January	62,42	59,16	50,80	12,74	8,18	20,92	26,02	—	26,02	10,00	1,48	4,00	33·5	41·7	75·2	24·8
February ...	64,01	61.38	51,84	12,58	8,93	21,51	24,00	—	24,00	10,00	4,50	4,00	33·6	37·5	71·1	28·9
March	67,73	64,13	53,19	12,24	11,92	24,16	23,06	51	23,57	10,00	6,00	4,00	35·8	34·8	70·6	29·4
April	65,47	63,55	53,67	12,25	11,92	24,17	18,55	1,47	20,02	10,00	7,28	4,00	36·9	30·6	67·5	32·5
May	66,31	64,54	51,89	12,12	11,92	24,04	17,68	1,53	19,21	10,00	9,06	4,00	36·3	29·0	65·3	34·7
June	71,39	67,94	52,67	12,51	11,92	24,43	22,43	1,47	23,90	10,00	9,06	4,00	34·2	33·5	67·7	32·3

July	75,48	70,81	52,82	12,29	11,92	24,21	26,83	1,38	28,21	10,00	9,06	4,00	32·1	37·4	69·5	30·5
August	74,01	69,73	55,18	11,66	11,92	23,58	26,81	56	27,37	10,00	9,06	4,00	31·9	37·0	68·9	31·1
September	71,55	66,37	56,66	10,99	11,92	22,91	24,24	1,34	25,58	10,00	9,06	4,00	32·0	35·8	67·8	32·2
October	73,32	69,30	61,12	12,56	11,92	24,48	23,97	1,67	25.64	10,00	9,06	4,00	33·4	35·0	68·4	31·6
November	76,50	72,90	63,76	12,38	11,92	24,30	18,07	1,89	19,96	10,00	18,24	4,00	31·8	26·1	57·9	42·1
December	82,17	79,11	66,88	11,92	11,92	23,84	14,39	2,98	17,37	10,00	26,96	4,00	29·0	21·1	50·1	49·9
1917.																
January	84,36	80,16	64,26	12,57	10,42	22,99	15,04	2,44	17,48	10,00	29,88	4,00	27·3	20·7	48·0	52·0
February	86,76	81,96	66,37	12,17	8,92	21,09	15,82	2,52	18,34	10,00	33,32	4,00	24·3	21·1	45·4	54·6
March	86.37	81,98	67,08	12,00	6,67	18,67	17,08	2,13	19,21	10,00	34,49	4,00	21·6	22·2	43·8	56·2
April	82,72	82,08	66,21	11,39	5,17	16,56	13,67	1,70	15,37	10,00	36,78	4,00	20·0	18·6	38·4	61·4
May	88,31	84,42	64,53	9,94	5,17	15,11	14,68	85	15,53	10,00	43,80	3,87	17·1	18·8	35·9	64·1
June	93,29	88,21	62,27	7,07	4,80	11,87	19,61	63	20,24	10,00	47,31	3,86	12·7	21·7	34·4	65·6
July	99,31	90,88	64,14	7,03	4,42	11,45	25,90	48	26,38	10,00	47,86	3,62	11·5	26·6	38·1	61·9
August	1,05,15	99,90	66,99	12,12	2,55	14,67	28,55	45	29,00	10,00	47,86	3,62	14·0	27·0	41·6	58·4
September	1,08,43	1,05,77	69,99	15,86	1,52	17,38	28,88	69	29.57	10,00	47,86	3,62	16·0	27·3	43·3	56·7
October	1,14,77	1,11,75	73,41	21,91	1,92	23,83	28,88	58	29,46	10,00	48,12	3,36	20·8	25·7	46·5	53·5
November	1,12,93	1,09,72	74,19	24,65	2,30	26,95	24,01	49	24,50	10,00	48,12	3,36	23.9	21·7	45·6	54·4
December	1,08.31	1,05,11	78,77	26,73	1,04	27,77	18,27	79	19,06	10.00	48,12	3,36	24·7	17·6	42·3	57·7
1918.																
January	1,04.82	1,01,12	78,27	27,19	1,04	28,23	14,92	19	15,11	10,00	48,12	3,36	26·9	14·4	41·3	58·7
February	1,03,46	99,66	79,35	28,30	67	28,97	12,56	45	13,01	10,00	48,12	3,36	28·0	12·6	40·6	59·4
March	99,79	97,78	84,30	26,85	67	27,52	10,40	39	10,79	10,00	48,12	3,36	27·6	10·8	38·4	61·6
April	1,05,96	1,01.84	86,34	22,64	45	23,09	7,26	6,46	13,72	10,00	55,83	3,36	21·8	12·9	34·7	65·3
May	1,11,53	1,10,46	90.71	19,12	45	19,57	5,14	10,42	15,56	10,00	61,25	2,91	17·5	14·0	31·5	68·5
June	1,14,79	1,12.95	92,42	21,04	45	21,49	5,66	9,29	14,95	10,00	65,61	2,79	18·7	13·0	31·7	68·3
July	1,21,41	1,19,93	96,08	20,21	12	20,33	8,02	10,40	18,42	10,00	70,00	2,65	16·7	15·2	31·9	68·1
August	1,31,41	1,29,92	1,03,09	20,33	12	20,45	11,18	13,78	24,96	10,00	74,05	1,95	15·5	19·0	34·5	65·5
September	1,34,38	1,32,37	1,10,68	20,38	12	20,50	12,38	15,50	27,88	10,00	74,43	1,57	15·3	20·7	36·0	64·0
October	1,36,43	1,35,93	1,19,98	20,41	12	20,53	10,49	19,42	29,91	10,00	74,72	1,27	15·0	21·9	36·9	63·1
November	1,40,76	1,40,43	1,27,37	20,45	12	20,57	8,48	25,71	34,19	10,00	74,72	1,28	14·6	24·3	38·9	61·1
December	1,47.09	1,46,71	1,35,39	19,68	12	19,80	10,56	21,57	32,13	12,66	81,22	1,28	13·5	21·2	34·7	65·3
1919.																
January	1,49,74	1,48,16	1,35,39	18,91	12	19,03	11,58	20,54	32,12	16,08	81,22	1,28	13·4	21·5	34·9	65·1
February	1,51,48	1,49,94	1,34,98	18,14	12	18,26	13,50	21,15	34,65	16,08	81,22	1,28	12·1	22·9	35·0	65·0
March	1,53,46	1,50,07	1,33,59	17,37	12	17,49	16,66	20,73	37,39	16,08	81,22	1,28	11·4	24·4	35·8	64·2
April	1,53,72	1,52,81	1,36,98	14,55	3,00	17,55	18,01	19,58	37,59	16,08	81,22	1,28	11·4	24·4	35·8	63·9
May	1,55,18	1,54,83	1,38,45	16,11	1,50	17,61	19,61	19,38	38,99	16,08	81,22	1,28	11·4	25·1	36·5	63·5
June	1,62,76	1,62.20	1,38,33	17,69	—	17,69	23,55	22,94	46,49	16,08	81,22	1,28	10·9	28·5	39·4	60·6
July	1,67,11	1,66,46	1,42,85	19,13	—	19,13	28,49	20,91	49,40	16,08	81,22	1,28	11·4	29·6	41·1	59·0
August	1,68,92	1,68,34	1,50,61	19,26	9	19,35	31,48	19,51	50,99	16,08	81,22	1,28	11·4	30·1	41·6	58·3
September	1,71.86	1,71,37	1,54,33	18,45	2,92	21,37	34,35	16,62	50,97	17,03	82,50	—	12·4	29·7	42·1	57·9
October	1,75,29	1,74,45	1,53,16	19,25	5,59	24.84	35,59	15,33	50,92	17,03	82,50	—	14·2	29·0	43·2	56·8
November	1,79,67	1,78,93	1,55,62	23,54	9,16	32,70	32,84	14,60	47,44	17,03	82,50	—	18·2	26·4	44·6	55·4
December	1,82,91	1,82,70	1,65,87	29,61	10,10	39.71	29,64	14,03	43,67	17,03	82,50	—	21·7	23·9	45·6	54·4

Last day of Month.	Note Circulation.			Composition of Reserve.												
				Gold.			Silver.			Securities.			Percentage of Gold to Gross Note Circulation.	Percentage of Silver to Gross Note Circulation.	Percentage of Gold and Silver to Gross Note Circulation.	Percentage of Securities to Gross Note Circulation.
										India.	England.					
	Gross.	Net.	Active.	In India.	Out of India.	Total.	Coin.	Bullion.	Total.		Treasury Bills.	Other British Securities.				
1920.																
January	1,85,15	1,81,67	1,63,41	35,10	11,62	46,72	28,38	11,95	40,33	15,60	82,50	—	25·2	21·8	47·0	53·0
February	1,83,03	1,80,25	1,59,75	41,30	4,65	45,95	29,85	9,14	38,99	15,60	82.50	—	25·1	21·3	46·4	53·6
March	1,74,52	1,73.32	1,53,78	44,36	3,45	47,81	33,22	6,63	39,85	19,59	67,27	—	27·4	22·8	50·2	49·8
April	1,70,74	1,69,34	1,50,39	45,38	95	46,33	33,81	5,56	39,37	23,77	61,27	—	27·1	23·1	50·2	49·8
May	1,66,92	1,63,72	1,41,99	42,86	74	43,60	37,10	4,27	41,37	31,18	50,77	—	26·1	24·8	50·9	49·1
June	1,64,34	1,62,17	1,34,97	43,48	2,49	45,97	41,94	3,61	45,55	35,55	37,27	—	28·0	27·7	55·7	44·3
July	1,63,87	1,62,56	1,29,47	44,62	—	44,62	46,75	3,61	50,36	40,62	28,27	—	27·2	30·8	58·0	42·0
August	1,63,27	1,61,60	1,27,73	39,12	—	39,12	51,62	3,67	55,29	47,33	21,53	—	24·0	33·9	57·9	42·1
September	1,57,63	1,56,31	1,30,11	36,15	—	36,15	54,34	3,72	58,06	47,14	16,28	—	22·9	36·9	59·8	40·2
October	1,59,58	1,59,13	1,35,90	23,75	—	23,75	55,60	3,81	59,41	68,07	8,35	—	14·9	37·2	52·1	47·9
November	1,60,21	1,59,11	1,38,54	23,86	—	23,86	56,05	3.88	59,93	68,07	8,35	—	14·9	37·4	52·3	47·7
December	1,61,40	1,61,02	1,43,07	23,89	—	23,89	57,13	3,96	61,09	68,07	8,35	—	14·8	37·8	52·6	47·4
1921.																
January	1,63.41	1,63,06	1,43,00	24,00	—	24,00	58,95	4,04	62,99	68,07	8,35	—	14·7	38·5	53·2	46·8
February	1,64,60	—	1,43,51	24,06	—	24,06	60,03	4,09	64,12	68,07	8,35	—	14·6	39·0	53·6	46·4
March	1,66,16	—	1,47,88	24,17	—	24,17	61,42	4,14	65,56	68,07	8,35	—	14·5	39·5	54·0	46·0
April	1,67,32	—	1,43,51	24,26	—	24,26	62,45	4,20	66,65	68,06	8,35	—	14·5	39·8	54·3	45·7
May	1,67,81	—	1,45,62	24,30	—	24,30	62,97	4,20	67,17	67,99	8,35	—	14·5	40·0	54·5	45·5
June	1,71,76	—	1,44,39	24,35	—	24,35	66.87	4,20	71,07	67,99	8,35	—	14·2	41·4	55·6	44·4
July	1,75,56	—	1,44,40	24,35	—	24,35	70,60	4,21	74,81	68,05	8,35	—	13·9	42·6	56·5	43·5
August	1,76,02	—	1,46,82	24,35	—	24,35	72,19	4,21	76,40	66,92	8,35	—	13·8	43·4	57·2	42·8
September	1,78,37	—	1,53,71	24,34	—	24,34	74,55	4,21	78,76	66,92	8,35	—	13·6	44·2	57·8	42·2
October	1,79,72	—	1,55,21	24,34	—	24,34	75,76	4,21	79,97	67,06	8,35	—	13·5	44·5	58·0	42·0
November	1,73,48	—	1,56,00	24,33	—	24,33	74,20	4,21	78,41	64.40	6,34	—	14·0	45·2	59·2	40·8
December	1,72,53	—	1,62,59	24,32	—	24,32	69,76	4,21	73,97	68,40	5,85	—	14·1	42·9	57·0	43·0
1922.																
January	1,74,40	—	1,57,95	24,32	—	24,32	70,28	4,55	74,83	69,39	5,85	—	13·9	42·9	56·8	43·2
February	1,73,87	—	1,59,23	24,32	—	24.32	71,72	4,55	76,27	67,43	5,85	—	14·0	43·9	57·9	42·1
March	1,74,76	—	1,57,23	24,32	—	24,32	72,96	4,56	77,52	(e)67,08	5.85	—	13·9	44·4	58·3	41·7
April	1,71,76	—	1,56,79	24,32	—	24,32	71,95	4,56	76,51	65,09	5,85	—	14·2	44·5	58·7	41·3
May	1,72,39	—	1,54,92	24,32	—	24,32	72,50	4,56	77,06	65,17	5,85	—	14·1	44·7	58·8	41·2
June	1,76,01	—	1,47,18	24,32	—	24,32	76,17	4,56	80,73	65,12	5,85	—	13·8	45·9	59·7	40·3
July	1,80,41	—	1,40,28	24,32	—	24,32	80,53	4,56	85,09	65,15	5,85	—	13·5	47·2	60·7	39·3
August	1,82,26	—	1,40,99	24,32	—	24,32	83,76	4,56	88,32	63,78	5,85	—	13·3	48·5	61·8	38·2

September	1,80,76	—	1,49,60	24,32	—	24,32	85,11	4,56	89,67	60,92	5,85	—	13·5	49·6	63·1	36·9
October	1,79,63	—	1,50,12	24,32	—	24,32	86,54	4,56	91,10	58,37	5,85	—	13·5	50·7	64·2	35·8
November	1,77,30	—	1,55,00	24,32	—	24,32	85,16	4,56	89,72	57,42	5,85	—	13·7	50·6	64·3	35·7
December	1,74,18	—	1,63,14	24,32	—	24,32	82,03	4,56	86,59	57,42	5,85	—	14·0	49·7	63·7	36·3
1923.																
January	1,72,65	—	1,60,24	24,32	—	24,32	80,49	4,56	85,05	57,43	5,85	—	14·1	49·3	63·4	36·6
February	1,73,89	—	1,59,86	24,32	—	24,32	81,73	4,56	86,29	57,43	5,85	—	14·0	49·6	63·6	36·4
March	1,74,70	—	1,61,10	24,32	—	24,32	82,50	4,56	87,06	57,48	5,85	—	13·9	49·8	63·7	36·3
April...	1,73,37	—	1,59,96	24,32	—	24,32	79,09	4,56	83,65	(e)59,55	5,85	—	14·0	48·3	62·3	37·7
May	1,71,23	—	1,54,09	24,32	—	24,32	79,01	4,56	83,57	57,50	5,85	—	14·2	48·8	63·0	37·0
June	1,73,61	—	1,50,32	24,32	—	24,32	81,39	4,56	85,95	57,50	5,85	—	14·0	49·5	63·5	36·5
July	1,75,72	—	1,42,60	24,32	—	24,32	85,48	4,56	90,04	57,51	5,85	—	13·8	51·3	65·1	34·9
August	1,76,30	—	1,41,32	24,32	—	24,32	89,91	4,56	94,47	57,51	—	—	13·8	53·6	67·4	32·6
September	1,79,29	—	1,44,10	24,32	—	24,32	92,66	4,83	97,49	57,48	—	—	13·6	54·4	68·0	32·0
October	1,80,82	—	1,47,45	24,32	—	24,32	93,48	5,54	99,02	57,48	—	—	13·4	54·8	68·2	31·8
November	1,78,30	—	1,57,92	22,32	—	22,32	89,88	5,62	95,50	57,48	3,00	—	12·5	53·6	66·1	33·9
December	1,83,41	—	1,72,48	22 32	—	22,32	80,97	5,64	86,61	(a)65,48	9,00	—	12·2	47·2	59·4	40·6
1924.																
January	1,84,02	—	1,70,35	22,32	—	22,32	76,49	5,69	82,18	(a)65,52	14,00	—	12·1	44·7	56·8	43·2
February	1,86,19	—	1,73,47	22,32	—	22,32	74,64	5,70	80,34	(b)69,53	14,00	—	12·0	43·1	55·1	44·9
March	1,85,85	—	1,69,06	22,32	—	22,32	74,18	5,82	80,00	(b)69,53	14,00	—	12·0	43·1	55·1	44·9
April	1,81,33	—	1,67,07	22,32	—	22,32	71,50	5,99	77,49	(c)67,53	14,00	—	12·3	42·7	55·0	45·0
May	1,74,51	—	1,60,64	22,32	—	22,32	70,56	6,10	76,66	(d)61,53	14,00	—	12·8	43·9	56·7	43·3
June	1,72,49	—	1,55,60	22,32	—	22,32	72,47	6,18	78,65	57,53	14,00	—	12·9	45·6	58·5	41·5
July	1,76,24	—	1,47,38	22,32	—	22,32	76,23	6,34	82,57	57,35	14,00	—	12·7	46·8	59·5	40·5
August	1,78,13	—	1,50,48	22,32	—	22,32	78,06	6,42	84,48	57,34	14.00	—	12·5	47·4	59·9	40·1
September	1,79,26	—	1,53,93	22,32	—	22,32	79,15	6,48	85,63	57,31	14,00	—	12·4	47·8	60·2	39·8
October	1,80,98	—	1,64,12	22,32	—	22,32	80,07	6,47	86,54	57,13	15,00	—	12·3	47·8	60·1	39·9
November	1,80,06	—	1,60,22	22,32	—	22,32	78,13	6,49	84,62	57,13	16,00	—	12·4	47·0	59·4	40·6
December	1,79,21	—	1,70,06	22,32	—	22,32	74,21	6,56	80,77	(e)59,13	17,00	—	12·4	45·1	57·5	42·5
1925.																
January	1,81,12	—	1,66,15	22,32	—	22,32	71,11	6,56	77,67	(d)61,13	20,00	—	12·3	42·9	55·2	44·8
February	1,83,72	—	1,68,75	22,32	—	22,32	69,51	6,77	76,28	(a)65,13	20,00	—	12·2	41·4	53·6	46·4
March	1,84,19	—	1,66,55	22,32	—	22,32	70,02	6,73	76,75	(a)65,13	20.00	—	12·1	41·7	53·8	46·2
April...	1,79,61	—	1,62,86	22,32	—	22,32	67,40	6,77	74,17	(f)63,13	20,00	—	12·4	41·3	53·7	46·3
May	1,73,23	—	1,54,55	22,32	—	22,32	66,95	6,80	73,75	57,16	20,00	—	12·9	42·6	55·5	44·5
June	1,78,25	—	1,49,05	22,32	—	22,32	71,86	6,89	78,75	57.18	20,00	—	12·5	44·2	56·7	43·3
July	1,84,30	—	1,40,75	22,32	—	22,32	77,85	6,95	84,80	57,18	20,00	—	12·1	46·0	58·1	41·9
August	1,88,21	—	1,48,44	22,32	—	22,32	81,79	6,99	88,78	57,12	20,00	—	11·9	47·2	59·1	40·9
September	1,89,51	—	1,60,73	22,32	—	22,32	83,04	7,05	90,09	57,11	20,00	—	11·8	47·5	59·3	40·7

(a) Includes Rs. 8 crores of Internal Bills of Exchange. (b) Includes Rs. 12 crores of Internal Bills of Exchange. (c) Includes Rs. 10 crores of Internal Bills of Exchange.
(d) Includes Rs. 4 crores of Internal Bills of Exchange. (e) Includes Rs. 2 crores of Internal Bills of Exchange. (f) Includes Rs. 6 crores of Internal Bills of Exchange.

APPENDIX VI.

Statement showing highest and lowest market prices of Telegraphic Transfers in Calcutta on London.

	1920.		1921.		1922.		1923.		1924.		1925.	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
January	2 $5\frac{1}{4}$	2 $3\frac{3}{4}$	1 $6\frac{1}{8}$	1 $4\frac{3}{4}$	1 $3\frac{31}{32}$	1 $3\frac{5}{8}$	1 $5\frac{3}{16}$	1 $4\frac{1}{32}$	1 $5\frac{7}{32}$	1 $4\frac{31}{32}$	1 $6\frac{1}{16}$	1 $5\frac{13}{16}$
February	2 $10\frac{1}{2}$	2 7	1 $4\frac{3}{4}$	1 3	1 $3\frac{23}{32}$	1 $2\frac{15}{16}$	1 $4\frac{3}{8}$	1 $3\frac{15}{16}$	1 $5\frac{1}{8}$	1 $4\frac{19}{32}$	1 6	1 $5\frac{15}{16}$
March	2 $7\frac{1}{4}$	2 3	1 $3\frac{11}{16}$	1 $2\frac{7}{8}$	1 $3\frac{13}{32}$	1 $3\frac{5}{32}$	1 $4\frac{3}{16}$	1 4	1 $4\frac{13}{16}$	1 $4\frac{1}{2}$	1 $5\frac{31}{32}$	1 $5\frac{27}{32}$
April	2 4	2 $3\frac{3}{8}$	1 $3\frac{3}{4}$	1 $3\frac{7}{16}$	1 $3\frac{7}{32}$	1 $3\frac{3}{32}$	1 $4\frac{3}{16}$	1 $4\frac{1}{16}$	1 $4\frac{29}{32}$	1 $4\frac{21}{32}$	1 $5\frac{7}{8}$	1 $5\frac{13}{16}$
May	2 $3\frac{3}{8}$	2 $0\frac{1}{2}$	1 $3\frac{21}{32}$	1 3	1 $3\frac{23}{32}$	1 $3\frac{5}{32}$	1 $4\frac{3}{16}$	1 $4\frac{1}{32}$	1 $4\frac{29}{32}$	1 $4\frac{11}{16}$	1 6	1 $5\frac{13}{16}$
June	2 $1\frac{1}{4}$	1 $8\frac{1}{2}$	1 $3\frac{11}{16}$	1 $3\frac{3}{16}$	1 $3\frac{11}{16}$	1 $3\frac{7}{16}$	1 $4\frac{1}{8}$	1 $4\frac{1}{16}$	1 $5\frac{1}{32}$	1 $4\frac{27}{32}$	1 $6\frac{3}{32}$	1 $5\frac{31}{32}$
July	1 11	1 $8\frac{3}{4}$	1 $3\frac{3}{8}$	1 $3\frac{5}{32}$	1 $3\frac{23}{32}$	1 $3\frac{19}{32}$	1 $4\frac{1}{8}$	1 $4\frac{1}{16}$	1 $5\frac{15}{32}$	1 $4\frac{31}{32}$	1 $6\frac{3}{32}$	1 $6\frac{1}{16}$
August	1 $10\frac{3}{4}$	1 $10\frac{1}{4}$	1 5	1 $3\frac{13}{32}$	1 $3\frac{21}{32}$	1 $3\frac{1}{2}$	1 $4\frac{1}{32}$	1 $3\frac{15}{16}$	1 $5\frac{17}{32}$	1 $4\frac{13}{16}$	1 $6\frac{1}{8}$	1 $6\frac{3}{32}$
September	1 $10\frac{1}{2}$	1 $9\frac{3}{8}$	1 $5\frac{3}{4}$	1 $4\frac{9}{16}$	1 $3\frac{19}{32}$	1 $3\frac{1}{2}$	1 $4\frac{1}{4}$	1 4	1 $5\frac{3}{4}$	1 $5\frac{7}{32}$	1 $6\frac{5}{32}$	1 $6\frac{1}{8}$
October	1 $9\frac{3}{8}$	1 $6\frac{1}{2}$	1 $5\frac{9}{16}$	1 $4\frac{1}{8}$	1 $3\frac{21}{32}$	1 $3\frac{9}{16}$	1 $4\frac{3}{4}$	1 $4\frac{5}{32}$	1 $6\frac{9}{32}$	1 $5\frac{23}{32}$	—	—
November	1 $8\frac{1}{8}$	1 $6\frac{3}{8}$	1 $4\frac{9}{16}$	1 $3\frac{5}{8}$	1 $3\frac{31}{32}$	1 $3\frac{5}{8}$	1 $5\frac{3}{32}$	1 $4\frac{17}{32}$	1 $6\frac{1}{16}$	1 $5\frac{23}{32}$	—	—
December	1 $6\frac{3}{8}$	1 $4\frac{3}{4}$	1 4	1 $3\frac{3}{4}$	1 $4\frac{1}{8}$	1 $3\frac{7}{8}$	1 $5\frac{1}{4}$	1 $4\frac{27}{32}$	1 $6\frac{5}{32}$	1 $5\frac{15}{16}$	—	—

Appendix VII.

Statement comparing movements of gold, sterling and rupee prices and course of Exchange since January 1920.

—	Price Index Number.			Rate of Exchange from Calcutta on London on the 1st of the month.	
	Great Britain (a) (1913 parity).	United States (b) (1913 parity).	India (c) (July 1914 parity).	Sterling.	Gold.
				s. d.	s. d.
1920.					
January	289	233		2 $3\frac{7}{8}$	1 10
February	303	232		2 $8\frac{1}{2}$	1 $11\frac{7}{32}$
March	310	234		2 7	1 $9\frac{23}{32}$
April	306	245		2 4	1 $10\frac{1}{4}$
May	305	247		2 $3\frac{1}{4}$	1 $9\frac{7}{16}$
June	291	243	204 (annual average).	2 $1\frac{1}{4}$	1 $8\frac{3}{8}$
July	293	241		1 $8\frac{3}{4}$	1 $4\frac{7}{8}$
August	288	231		1 $10\frac{5}{8}$	1 $5\frac{5}{16}$
September	284	226		1 $10\frac{1}{4}$	1 $4\frac{5}{16}$
October	266	211		1 $9\frac{3}{8}$	1 $3\frac{17}{32}$
November	246	196		1 $7\frac{3}{8}$	1 $1\frac{11}{16}$
December	220	179		1 $6\frac{3}{8}$	1 $1\frac{3}{16}$
1921.					
January	209	170		1 $5\frac{1}{4}$	1 $0\frac{15}{32}$
February	192	160		1 $4\frac{1}{4}$	1 $1\frac{1}{8}$
March	189	155		1 $3\frac{5}{8}$	1 $0\frac{3}{8}$
April	183	148		1 $3\frac{5}{8}$	1 $0\frac{9}{16}$
May	182	145		1 $3\frac{21}{32}$	1 $0\frac{23}{32}$
June	179	142	181 (annual average).	1 $3\frac{1}{4}$	1 $0\frac{1}{4}$
July	178	141		1 $3\frac{5}{16}$	0 $11\frac{23}{32}$
August	179	142		1 $3\frac{13}{32}$	0 $11\frac{9}{32}$
September	183	141		1 $4\frac{11}{16}$	1 $0\frac{13}{16}$
October	170	142		1 $5\frac{3}{8}$	1 $1\frac{3}{8}$
November	166	141		1 $4\frac{1}{2}$	1 $1\frac{5}{16}$
December	162	140		1 $3\frac{5}{8}$	1 $1\frac{5}{32}$
1922.					
January	159	138	178	1 $3\frac{15}{16}$	1 $1\frac{25}{32}$
February	158	141	179	1 $3\frac{5}{8}$	1 $1\frac{23}{32}$
March	160	142	182	1 $3\frac{3}{16}$	1 $1\frac{27}{32}$
April	159	143	182	1 $3\frac{3}{16}$	1 $1\frac{21}{32}$
May	162	148	187	1 $3\frac{5}{32}$	1 $1\frac{23}{32}$
June	163	150	183	1 $3\frac{11}{16}$	1 $2\frac{3}{8}$
July	163	155	181	1 $3\frac{5}{8}$	1 $2\frac{3}{16}$
August	158	155	178	1 $3\frac{21}{32}$	1 $2\frac{5}{16}$
September	156	153	176	1 $3\frac{17}{32}$	1 $2\frac{7}{32}$
October	158	154	177	1 $3\frac{9}{16}$	1 $2\frac{7}{32}$
November	159	156	178	1 $3\frac{21}{32}$	1 $2\frac{11}{32}$
December	158	156	176	1 $3\frac{31}{32}$	1 $2\frac{27}{32}$
1923.					
January	160	156	179	1 $4\frac{1}{32}$	1 $3\frac{9}{32}$
February	163	157	180	1 $4\frac{5}{16}$	1 $3\frac{5}{8}$
March	163	159	181	1 $4\frac{5}{32}$	1 $3\frac{5}{8}$
April	165	159	178	1 $4\frac{1}{16}$	1 $3\frac{13}{32}$
May	164	156	177	1 $4\frac{3}{16}$	1 $3\frac{7}{16}$
June	160	153	175	1 $4\frac{1}{16}$	1 $3\frac{5}{16}$
July	155	151	170	1 $4\frac{3}{32}$	1 $3\frac{1}{8}$
August	155	150	171	1 $4\frac{1}{32}$	1 $3\frac{1}{16}$
September	160	154	174	1 $4\frac{1}{32}$	1 3
October	160	153	174	1 $4\frac{5}{32}$	1 $3\frac{3}{32}$
November	169	152	177	1 $4\frac{11}{16}$	1 $3\frac{3}{8}$
December	170	151	179	1 $5\frac{7}{32}$	1 $3\frac{3}{8}$

—	Price Index Number.			Rate of Exchange from Calcutta on London on the 1st of the month.			
	Great Britain (a) (1913 parity).	United States (b) (1913 parity).	India (c) (July 1914 parity).	Sterling.		Gold.	
				s.	d.	s.	d.
1924.							
January	173	151	172	1	$5\frac{5}{32}$	1	$3\frac{1}{16}$
February	173	152	178	1	$5\frac{1}{8}$	1	$3\frac{5}{16}$
March	172	150	179	1	$4\frac{1}{2}$	1	$2\frac{9}{16}$
April	172	148	174	1	$4\frac{21}{32}$	1	$2\frac{23}{32}$
May	168	147	176	1	$4\frac{11}{16}$	1	3
June	168	145	176	1	$4\frac{27}{32}$	1	$2\frac{15}{16}$
July	173	147	179	1	5	1	$3\frac{1}{8}$
August	172	150	180	1	$5\frac{7}{16}$	1	$3\frac{13}{16}$
September	176	149	179	1	$5\frac{7}{32}$	1	$3\frac{7}{8}$
October	180	152	181	1	$5\frac{23}{32}$	1	$4\frac{1}{4}$
November	179	153	180	1	6	1	$4\frac{13}{16}$
December	180	157	176	1	$6\frac{1}{32}$	1	$5\frac{3}{16}$
1925.							
January	177	160	171	1	$6\frac{1}{16}$	1	$5\frac{21}{32}$
February	177	161	172	1	$5\frac{15}{16}$	1	$5\frac{11}{16}$
March	174	161	168	1	$5\frac{31}{32}$	1	$5\frac{17}{32}$
April	169	156	169	1	$5\frac{27}{32}$	1	$5\frac{17}{32}$
May	165	155	164	1	$5\frac{13}{16}$	1	$5\frac{23}{32}$
June	162	157	157	1	$5\frac{31}{32}$	1	$5\frac{15}{16}$
July	165	160	160	1	$6\frac{3}{32}$	1	$6\frac{1}{16}$
August	165	160	157	1	$6\frac{3}{32}$	1	$6\frac{1}{16}$
September	164	160	158	1	$6\frac{5}{32}$	1	$6\frac{3}{32}$
October	161	158	160	1	$6\frac{5}{32}$	1	$6\frac{1}{16}$
November	160	158	164	1	$6\frac{5}{32}$	1	$6\frac{1}{16}$
December	158	—	163	1	$6\frac{5}{32}$	1	$6\frac{1}{16}$

(a) Economist Index number.
(b) United States Bureau of Labour Index number.
(c) Index number of wholesale prices in Calcutta of following commodities :—
Cereals, Pulses, Sugar, Tea, other food articles, Oil seeds, Oil (mustard), Jute (raw), Jute (manufactures), Cotton (raw), Cotton (manufactures), Other textiles (Wool and Silk), Hides and Skins, Metals, Other raw and manufactured articles and Building materials (Teak wood).

APPENDIX VIII.

Statement showing loans taken by the Imperial Bank from Currency and the Bank rate and cash position of the Bank when the loans were taken or repaid.

Date.	Loan taken (Rs. in crores).	Repayments of loans (Rs. in crores).	Bank rate per cent.	Cash balance of Imperial Bank (*a*) (Rs. in crores).	Percentage of cash to liabilities (*a*).
10th March, 1922	2	—	8	17·21	23·82
27th April, 1922	—	2	7	18·04	24·59
TOTAL	2	2			
20th April, 1923	2	—	8	14·70	19·66
21st May, 1923	—	2	8	17·65	23·60
TOTAL	2	2			
19th December, 1923... ...	4	—	6	17·18	19·90
28th December, 1923... ...	4	—	7	17·04	18·85
8th February, 1924 ...	1	—	8	11·90	12·44
13th February, 1924	1	—	8	13·15	13·18
15th February, 1924	2	—	9	13·15	13·18
5th April, 1924	—	2	9	14·42	13·61
17th May, 1924	—	1	8	17·13	17·07
19th May, 1924	—	1	8	17·13	17·07
26th May, 1924	—	2	8	18·22	17·96
31st May, 1924	—	2	7	15·35	15·70
19th June, 1924	—	2	6	18·34	19·15
21st June, 1924	—	2	6	21·54	22·00
TOTAL	12	12			
23rd December, 1924... ...	2	—	6	17·82	20·69
16th January, 1925	2	—	6	18·26	20·65
6th February, 1925	2	—	7	15·26	16·68
18th February, 1925	2	—	7	15·32	15·97
30th April, 1925	—	2	7	19·12	18·61
18th May, 1925 ..	—	2	7	21·50	21·50
23rd May, 1925	—	2	6	21·64	21·71
26th May, 1925 . . .	—	2	6	21·64	21·71
TOTAL	8	8			

(*a*) Where the dates of the weekly statement of the affairs of the Imperial Bank are different from those in column 1, the cash balance and percentage figures of the next weekly statement are given.

APPENDIX IX.

Memorandum of procedure now in force for the issue of currency notes against bills of exchange.

(1) The Managing Governors of the Imperial Bank of India will inform the Controller of the Currency to what extent they desire notes to be issued, and when.

(2) No loan shall be made until the Bank rate rises to 6 per cent. The entire amount outstanding at any time shall bear interest at Bank rate subject to a minimum limit of 6 per cent. for the first four crores and of 7 per cent. for the subsequent eight crores. The Bank shall be entitled to deduct from the amount of interest payable any amounts proved to the satisfaction of the Controller of the Currency to have been paid by them on account of stamp duty on bills held by the Bank on behalf of the Currency Department.

(3) The Local Head Office of the Imperial Bank at Calcutta will present to the Controller a demand promissory note for the whole amount, or for such portion of it as may be required from time to time not exceeding such amount in the aggregate, with a certificate to the effect that internal bills or hundis which satisfy the conditions prescribed in and under the provisions of section 20 of Act X of 1923 and whose discounted value does not fall short of the amount of the loan required, are held by the Bank on behalf of the Currency Department.

(4) The Bank shall be at liberty to vary the bills from time to time so long as the above conditions are satisfied.

(5) The Bank is authorised to discharge and deal with bills as they fall due or are retired under rebate, provided always that no bills held against the issue of currency notes shall be withdrawn from the Government of India portfolio or discharged without a corresponding reduction in the amount of the loan or a deposit of fresh bills for an equal amount. The Bank will be entitled to withdraw bills without special sanction equal in amount to any repayments made by them.

(6) The loan will be made from Currency at Calcutta to the Local Head Office of the Imperial Bank under the orders of the Controller to the amount stated in the demand promisory note on receipt of the documents prescribed in (3) above which shall be surrendered on the Bank's repaying the loan with interest.

Appendix X.

Statement giving the amount of demand drafts purchased and drafts and telegraphic transfers paid in each circle of the Imperial Bank from 1920.

Demand Drafts Purchased.

(*In lakhs of rupees*).

—	1920.	1921.		1922.		1923.		1924.	
	2nd Half Year.	1st Half Year.	2nd Half Year.	1st Half Year.	2nd Half Year.	1st Half Year.	2nd Half Year.	1st Half Year.	2nd Half Year.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bengal Circle	14,21	5,10	17,36	9,65	18,98	16,13	27,07	23,66	33,54
Bombay Circle	4,39	4,78	9,72	9,50	11,00	18,92	18,91	28,66	17,84
Madras Circle	12,58	10,31	10,95	13,29	11,75	16,30	10,50	18,30	12,55
Total	31,18	20,19	38,03	32,44	41,73	51,35	56,48	70,62	63,93
Drafts and Telegraphic Transfers Paid.									
Bengal Circle	12,14	16,95	17,42	22,64	24,54	22,34	22,80	26,99	34,31
Bombay Circle	5,48	16,71	17,15	21,80	20,02	26,38	25,03	30,94	27,10
Madras Circle	7,03	9,31	8,82	10,16	7,47	9,39	9,30	12,43	9,96
Total	24,65	42,97	43,39	54,60	52,03	58,11	57,13	70,36	71,37

Appendix XI.

Statement giving daily figures of sterling purchases in India from 1923–24, *together with figures of Council Sales.*

Date.	Rate.	Council sale (in thousands of rupees).	Sterling purchases (in thousands of pounds).
	s. d.		
1st May, 1923 ...	1 $4\frac{1}{4}$	—	50
Do.	1 $4\frac{3}{16}$	—	50
2nd May, 1923 ...	1 $4\frac{3}{16}$	—	105
4th May, 1923 ...	1 $4\frac{3}{16}$	—	50
8th May, 1923 ...	1 $4\frac{1}{8}$	4,29	—
Do.	1 $4\frac{3}{16}$	25,71	—
15th May, 1923 ...	1 $4\frac{1}{16}$	15,00	—
Do.	1 $4\frac{3}{32}$	15,00	—
22nd May, 1923 ...	1 $4\frac{1}{16}$	16,00	—
Do.	1 $4\frac{3}{32}$	5,00	—
29th May, 1923 ...	1 $4\frac{1}{16}$	25,39	—
Do.	1 $4\frac{3}{32}$	4,61	—
5th June, 1923 ...	1 $4\frac{1}{16}$	22,16	—
Do.	1 $4\frac{3}{32}$	7,84	—
9th June, 1923 ...	1 $4\frac{1}{8}$	—	25
12th June, 1923 ...	1 $4\frac{3}{32}$	20,20	—
Do.	1 $4\frac{1}{8}$	9,80	—
16th June, 1923 ...	1 $4\frac{5}{32}$	—	25
18th June, 1923 ...	1 $4\frac{5}{32}$	—	125
19th June, 1923 ...	1 $4\frac{3}{32}$	19,10	—
Do.	1 $4\frac{1}{8}$	20,90	—
26th June, 1923 ...	1 $4\frac{1}{8}$	7,35	—
Do.	1 $4\frac{5}{32}$	32,65	—
3rd July, 1923 ...	1 $4\frac{3}{32}$	21,79	—
Do.	1 $4\frac{1}{8}$	15,21	—
Do.	1 $4\frac{5}{32}$	3,00	—
5th July, 1923 ...	1 $4\frac{5}{32}$	—	25
6th July, 1923 ...	1 $4\frac{5}{32}$	—	250

Date.	Rate.		Council sale (in thousands of rupees).	Sterling purchases (in thousands of pounds).	Date.	Rate.		Council sale (in thousands of rupees).	Sterling purchases (in thousands of pounds).
	s.	d.				s.	d.		
7th July, 1923 ...	1	$4\frac{5}{32}$	—	25	22nd Jan., 1924 ...	1	$5\frac{1}{4}$	35,00	—
10th July, 1923 ...	1	$4\frac{1}{8}$	27,30	—	23rd Jan., 1924 ...	1	$5\frac{9}{32}$	—	50
Do.	1	$4\frac{5}{32}$	12,70	—	24th Jan., 1924 ...	1	$5\frac{9}{32}$	—	415
17th July, 1923 ...	1	$4\frac{3}{32}$	18,89	—	25th Jan., 1924 ...	1	$5\frac{9}{32}$	—	25
Do.	1	$4\frac{1}{8}$	21,11	—	5th Feb., 1924 ...	1	$5\frac{1}{32}$	1,50	—
24th July, 1923 ...	1	$4\frac{1}{16}$	27,20	—	14th Feb., 1924 ...	1	$5\frac{1}{32}$	—	440
Do.	1	$4\frac{3}{32}$	12,80	—	Do.	1	$5\frac{1}{16}$	—	75
31st July, 1923 ...	1	$4\frac{1}{16}$	9,00	—	15th Feb., 1924 ...	1	$5\frac{1}{16}$	—	130
7th Aug., 1923 ...	1	$4\frac{1}{16}$	5,00	—	16th Feb., 1924 ...	1	$5\frac{1}{16}$	—	275
14th Aug., 1923 ...	1	$4\frac{1}{32}$	25,00	—	18th Feb., 1924 ...	1	$5\frac{1}{16}$	—	30
4th Sept., 1923 ...	1	$4\frac{1}{16}$	6,67	—	12th Mar., 1924 ...	1	$4\frac{27}{32}$	—	85
Do.	1	$4\frac{3}{32}$	13,33	—	24th Mar., 1924 ...	1	$4\frac{3}{4}$	—	150
8th Sept., 1923 ...	1	$4\frac{1}{8}$	—	250	25th Mar., 1924 ...	1	$4\frac{3}{4}$	—	390
10th Sept., 1923 ...	1	$4\frac{1}{8}$	—	305	9th April, 1924 ...	1	$4\frac{3}{4}$	—	255
Do.	1	$4\frac{5}{32}$	—	25	10th April, 1924 ...	1	$4\frac{3}{4}$	—	515
11th Sept., 1923 ...	1	$4\frac{5}{32}$	20,00	—	11th April, 1924 ..	1	$4\frac{25}{32}$	—	25
17th Sept., 1923 ...	1	$4\frac{3}{16}$	—	130	12th April, 1924 ...	1	$4\frac{25}{32}$	—	170
18th Sept., 1923 ...	1	$4\frac{3}{16}$	30,00	—	14th April, 1924 ...	1	$4\frac{25}{32}$	—	625
20th Sept., 1923 ...	1	$4\frac{1}{4}$	—	385	15th April, 1924 ...	1	$4\frac{13}{16}$	—	200
21st Sept., 1923 ...	1	$4\frac{9}{32}$	—	250	16th April, 1924 ...	1	$4\frac{27}{32}$	—	55
Do.	1	$4\frac{1}{4}$	—	35	Do.	1	$4\frac{13}{16}$	—	290
Do.	1	$4\frac{5}{16}$	—	275	17th April, 1924 ...	1	$4\frac{27}{32}$	—	130
22nd Sept., 1923 ...	1	$4\frac{5}{16}$	—	200	22nd April, 1924 ...	1	$4\frac{27}{32}$	—	150
25th Sept., 1923 ...	1	$4\frac{7}{32}$	1,00	—	23rd April, 1924 ...	1	$4\frac{27}{32}$	—	350
Do.	1	$4\frac{3}{16}$	29,00	—	Do.	1	$4\frac{7}{8}$	—	445
26th Sept., 1923 ...	1	$4\frac{1}{4}$	—	245	24th April, 1924 ...	1	$4\frac{7}{8}$	—	575
2nd Oct., 1923 ...	1	$4\frac{1}{4}$	30,00	—	Do.	1	$4\frac{29}{32}$	—	620
8th Oct., 1923 ...	1	$4\frac{5}{16}$	—	140	Do.	1	$4\frac{15}{16}$	—	250
9th Oct., 1923 ...	1	$4\frac{11}{32}$	50,00	—	25th April, 1924 ...	1	$4\frac{15}{16}$	—	475
11th Oct., 1923 ...	1	$4\frac{13}{32}$	—	10	14th May, 1924 ...	1	$4\frac{15}{16}$	—	180
15th Oct., 1923 ...	1	$4\frac{13}{32}$	—	100	Do.	1	$4\frac{29}{32}$	—	295
16th Oct., 1923 ...	1	$4\frac{7}{16}$	25,00	—	29th May, 1924 ...	1	$4\frac{15}{16}$	—	150
Do.	1	$4\frac{15}{32}$	25,00	—	30th May, 1924 ...	1	$4\frac{15}{16}$	—	175
17th Oct., 1923 ...	1	$4\frac{1}{2}$	—	225	7th June, 1924 ...	1	$4\frac{15}{16}$	—	300
20th Oct., 1923 ...	1	$4\frac{17}{32}$	—	370	9th June, 1924 ...	1	$4\frac{31}{32}$	—	80
22nd Oct., 1923 ...	1	$4\frac{17}{32}$	—	405	10th June, 1924 ...	1	$4\frac{31}{32}$	—	175
Do.	1	$4\frac{9}{16}$	—	560	13th June, 1924 ...	1	$4\frac{31}{32}$	—	250
Do.	1	$4\frac{19}{32}$	—	300	14th June, 1924 ...	1	$4\frac{31}{32}$	—	100
23rd Oct., 1923 ...	1	$4\frac{11}{16}$	40,00	—	Do.	1	5	—	200
Do.	1	$4\frac{23}{32}$	10,00	—	16th June, 1924 ...	1	5	—	300
24th Oct., 1923 ...	1	$4\frac{3}{4}$	—	100	Do.	1	$5\frac{1}{32}$	—	75
26th Oct., 1923 ...	1	$4\frac{3}{4}$	—	200	17th June, 1924 ...	1	$5\frac{1}{32}$	—	400
Do.	1	$4\frac{25}{32}$	—	250	Do.	1	$5\frac{1}{16}$	—	305
Do.	1	$4\frac{13}{16}$	—	150	14th July, 1924 ...	1	$5\frac{3}{32}$	—	600
27th Oct., 1923 ...	1	$4\frac{13}{16}$	—	100	15th July, 1924 ...	1	$5\frac{1}{8}$	—	450
29th Oct., 1923 ...	1	$4\frac{13}{16}$	—	155	Do.	1	$5\frac{3}{32}$	—	50
31st Oct., 1923 ...	1	$4\frac{25}{32}$	—	250	Do.	1	$5\frac{5}{32}$	—	100
6th Nov., 1923 ...	1	$4\frac{3}{4}$	1,00,00	—	17th July, 1924 ...	1	$5\frac{3}{16}$	—	450
10th Nov., 1923 ...	1	$4\frac{13}{16}$	—	415	Do.	1	$5\frac{5}{32}$	—	100
Do.	1	$4\frac{27}{32}$	—	150	Do.	1	$5\frac{7}{32}$	—	200
12th Nov., 1923 ...	1	$4\frac{27}{32}$	—	250	18th July, 1924 ...	1	$5\frac{1}{4}$	—	300
13th Nov., 1923 ...	1	$4\frac{29}{32}$	15,50	—	Do.	1	$5\frac{7}{32}$	—	150
Do.	1	$4\frac{7}{8}$	84,50	—	21st July, 1924 ...	1	$5\frac{1}{4}$	—	75
16th Nov., 1923 ...	1	$4\frac{15}{16}$	—	250	Do.	1	$5\frac{9}{32}$	—	200
17th Nov., 1923 ...	1	$4\frac{15}{16}$	—	250	22nd July, 1924 ...	1	$5\frac{11}{32}$	—	250
Do.	1	$4\frac{31}{32}$	—	500	Do.	1	$5\frac{13}{32}$	—	25
19th Nov., 1923 ...	1	5	—	300	23rd July, 1924 ...	1	$5\frac{13}{32}$	—	250
20th Nov., 1923 ...	1	$4\frac{31}{32}$	42,86	—	28th July, 1924 ...	1	$5\frac{15}{32}$	—	505
Do.	1	5	57,14	—	4th Aug., 1924 ...	1	$5\frac{17}{32}$	—	300
24th Nov., 1923 ...	1	$5\frac{1}{32}$	—	500	20th Aug., 1924 ...	1	$5\frac{3}{8}$	—	620
Do.	1	$5\frac{1}{16}$	—	200	Do.	1	$5\frac{15}{32}$	—	200
26th Nov., 1923 ...	1	$5\frac{3}{32}$	—	100	21st Aug., 1924 ...	1	$5\frac{13}{32}$	—	175
27th Nov., 1923 ...	1	$5\frac{1}{16}$	10,00	—	4th Sept., 1924 ...	1	$5\frac{7}{16}$	—	275
Do.	1	$5\frac{1}{32}$	1,15,00	—	8th Sept., 1924 ...	1	$5\frac{7}{16}$	—	250
29th Nov., 1923 ...	1	$5\frac{1}{8}$	—	400	9th Sept., 1924 ...	1	$5\frac{15}{32}$	—	175
30th Nov., 1923 ...	1	$5\frac{3}{16}$	—	400	11th Sept., 1924 ...	1	$5\frac{15}{32}$	—	250
Do.	1	$5\frac{1}{4}$	—	400	12th Sept., 1924 ...	1	$5\frac{15}{32}$	—	75
4th Dec., 1923 ...	1	$5\frac{7}{32}$	26,00	—	13th Sept., 1924 ...	1	$5\frac{15}{32}$	—	50
Do.	1	$5\frac{1}{4}$	1,00	—	15th Sept., 1924 ...	1	$5\frac{15}{32}$	—	50
27th Dec., 1923 ...	1	$5\frac{1}{4}$	—	500	16th Sept., 1924 ...	1	$5\frac{1}{2}$	—	145
Do.	1	$5\frac{5}{16}$	—	175	17th Sept., 1924 ...	1	$5\frac{1}{2}$	—	350
1st Jan., 1924 ...	1	$5\frac{9}{32}$	50,00	—	Do.	1	$5\frac{17}{32}$	—	600
12th Jan., 1924 ...	1	$5\frac{5}{16}$	—	100	18th Sept., 1924 ...	1	$5\frac{9}{16}$	—	600

Date.	Rate.		Council sale. (In thousands of rupees).	Sterling purchases. (In thousands of pounds).
	s.	d.		
19th Sept., 1924 ...	1	$5\frac{19}{32}$	—	300
Do.	1	$5\frac{5}{8}$	—	300
20th Sept., 1924 ...	1	$5\frac{11}{32}$	—	575
22nd Sept., 1924 ...	1	$5\frac{21}{32}$	—	200
Do.	1	$5\frac{11}{16}$	—	50
24th Sept., 1924 ...	1	$5\frac{11}{16}$	—	475
Do.	1	$5\frac{23}{32}$	—	400
27th Sept., 1924 ...	1	$5\frac{3}{4}$	—	300
30th Sept., 1924 ...	1	$5\frac{13}{16}$	20,00	—
Do.	1	$5\frac{25}{32}$	24,06	—
Do.	1	$5\frac{3}{4}$	5,94	—
2nd Oct., 1924 ...	1	$5\frac{13}{16}$	—	600
Do.	1	$5\frac{27}{32}$	—	300
Do.	1	$5\frac{7}{8}$	—	135
3rd Oct., 1924 ..	1	$5\frac{7}{8}$	—	565
Do.	1	$5\frac{29}{32}$	—	700
Do.	1	$5\frac{15}{16}$	—	425
4th Oct., 1924 ...	1	$5\frac{31}{32}$	—	205
6th Oct., 1924 ...	1	$5\frac{31}{32}$	—	125
7th Oct., 1924 ...	1	$6\frac{5}{32}$	10,00	—
Do.	1	$6\frac{1}{8}$	25,33	—
Do.	1	$6\frac{3}{32}$	14,67	—
8th Oct., 1924 ...	1	$6\frac{5}{32}$	—	500
Do.	1	$6\frac{3}{16}$	—	500
Do.	1	$6\frac{7}{32}$	—	500
Do.	1	$6\frac{1}{4}$	—	500
9th Oct., 1924 ...	1	$6\frac{1}{4}$	—	600
Do.	1	$6\frac{9}{32}$	—	1 320
Do.	1	$6\frac{5}{16}$	—	380
14th Oct., 1924 ...	1	$6\frac{1}{32}$	25,00	—
Do.	1	6	25,00	—
17th Oct., 1924 ...	1	$6\frac{3}{32}$	—	480
Do.	1	$6\frac{1}{8}$	—	215
18th Oct., 1924 ...	1	$6\frac{1}{8}$	—	300
20th Oct., 1924 ...	1	$6\frac{1}{8}$	—	600
21st Oct., 1924 ...	1	6	56,00	—
Do. ...	1	$6\frac{1}{16}$	8,00	—
Do. ...	1	$6\frac{1}{32}$	10,00	—
28th Oct., 1924 ...	1	6	57,02	—
Do. ..	1	$6\frac{1}{32}$	41,98	—
Do. ...	1	$6\frac{1}{16}$	1,00	—
30th Oct., 1924 ...	1	$6\frac{1}{16}$	—	205
4th Nov., 1924 ..	1	6	5,00	—
Do. ...	1	$5\frac{31}{32}$	17,00	—
22nd Nov., 1924 ...	1	$6\frac{1}{16}$	—	310
24th Nov., 1924 ...	1	$6\frac{1}{16}$	—	145
25th Nov., 1924 ...	1	$6\frac{1}{32}$	8,00	—
26th Nov., 1924 ...	1	$6\frac{1}{16}$	—	215
27th Nov., 1924 ...	1	$6\frac{1}{16}$	—	20
28th Nov., 1924 ...	1	$6\frac{1}{16}$	—	10
29th Nov., 1924 ...	1	$6\frac{1}{16}$	—	60
1st Dec., 1924 ...	1	$6\frac{1}{16}$	—	300
2nd Dec., 1924 ...	1	$6\frac{3}{32}$	2,00	—
Do. ...	1	$6\frac{1}{16}$	33,61	—
Do. ...	1	$6\frac{1}{32}$	64,39	—
3rd Dec., 1924 ..	1	$6\frac{3}{32}$	—	10
16th Dec., 1924 ...	1	6	30,00	—
18th Dec., 1924 ...	1	$6\frac{1}{16}$	—	275
19th Dec., 1924 ...	1	$6\frac{1}{16}$	—	600
Do. ...	1	$6\frac{3}{32}$	—	226
20th Dec., 1924 ...	1	$6\frac{3}{32}$	—	300
Do. ...	1	$6\frac{1}{8}$	—	50
22nd Dec., 1924 ...	1	$6\frac{1}{8}$	—	150
23rd Dec., 1924 ...	1	$6\frac{3}{16}$	50,00	—
Do. ...	1	$6\frac{5}{32}$	27,67	—
Do. ..	1	$6\frac{1}{8}$	22,33	—
27th Dec., 1924 ...	1	$6\frac{5}{32}$	—	425
29th Dec., 1924 ..	1	$6\frac{5}{32}$	—	2,220
30th Dec., 1924 ...	1	$6\frac{1}{8}$	50,50	—
Do. ..	1	$6\frac{3}{32}$	21,00	—
8th Jan., 1925 ...	1	$6\frac{1}{16}$	—	185
27th Jan., 1925 ...	1	6	55,00	—
Do. ...	1	$6\frac{1}{32}$	20,00	—

Date	Rate.		Council sale. (In thousands of rupees).	Sterling purchases. (In thousands of pounds).
	s.	d.		
10th Feb., 1925 ...	1	6	25,00	—
17th Feb., 1925 ..	1	6	49,50	—
24th Feb., 1925 ...	1	6	1,00,00	—
3rd Mar., 1925 ...	1	6	1,00,00	—
10th Mar., 1925 ...	1	6	4,00	—
15th May, 1925 ...	1	6	—	475
29th May, 1925 ...	1	6	—	400
30th May, 1925 ...	1	6	—	10
2nd June, 1925 ..	1	6	—	70
4th June, 1925 ..	1	6	—	105
5th June, 1925 ...	1	6	—	750
6th June, 1925 ...	1	6	—	1,330
Do.	1	$6\frac{1}{32}$	—	155
8th June, 1925 ...	1	$6\frac{1}{32}$	—	370
9th June, 1925 ...	1	$6\frac{1}{32}$	—	925
Do.	1	$6\frac{1}{16}$	—	358
10th June, 1925 ..	1	$6\frac{1}{16}$	—	568
Do.	1	$6\frac{3}{32}$	—	205
22nd June, 1925 ...	1	$6\frac{1}{16}$	—	125
23rd June, 1925 ...	1	$6\frac{1}{16}$	—	960
24th June, 1925 ...	1	$6\frac{3}{32}$	—	1,315
25th June, 1925 ...	1	$6\frac{1}{8}$	—	330
4th July, 1925 ...	1	$6\frac{1}{8}$	—	445
6th July, 1925 ...	1	$6\frac{1}{8}$	—	715
9th July, 1925 ...	1	$6\frac{1}{8}$	—	50
10th July, 1925 ...	1	$6\frac{1}{8}$	—	190
11th July, 1925 ..	1	$6\frac{1}{8}$	—	75
28th July, 1925 ...	1	$6\frac{1}{8}$	—	125
29th July, 1925 ...	1	$6\frac{1}{8}$	—	80
30th July, 1925 ...	1	$6\frac{1}{8}$	—	25
3rd Aug., 1925 ...	1	$6\frac{1}{8}$	—	60
5th Aug., 1925 ...	1	$6\frac{1}{8}$	-	10
6th Aug., 1925 ...	1	$6\frac{1}{8}$	—	50
7th Aug., 1925 ...	1	$6\frac{1}{8}$	—	130
8th Aug., 1925 ...	1	$6\frac{1}{8}$	—	30
10th Aug., 1925 ...	1	$6\frac{1}{8}$	—	125
11th Aug., 1925 ...	1	$6\frac{1}{8}$	—	35
18th Aug., 1925 ...	1	$6\frac{1}{8}$	—	20
20th Aug., 1925 ...	1	$6\frac{1}{8}$	—	130
21st Aug., 1925 ...	1	$6\frac{1}{8}$	—	90
22nd Aug., 1925 ...	1	$6\frac{1}{8}$	—	90
24th Aug., 1925 ...	1	$6\frac{1}{8}$	—	665
25th Aug., 1925 ...	1	$6\frac{1}{8}$	—	590
26th Aug., 1925 ...	1	$6\frac{1}{8}$	—	540
27th Aug., 1925 ...	1	$6\frac{1}{8}$	—	705
Do.	1	$6\frac{5}{32}$	—	70
28th Aug., 1925 ...	1	$6\frac{5}{32}$	—	920
29th Aug., 1925 ...	1	$6\frac{5}{32}$	—	2,290
31st Aug., 1925 ...	1	$6\frac{3}{16}$	—	175
1st Sept., 1925 ...	1	$6\frac{3}{16}$	—	30
5th Sept., 1925 ...	1	$6\frac{3}{16}$	—	30
7th Sept., 1925 ...	1	$6\frac{3}{16}$	—	175
8th Sept., 1925 ...	1	$6\frac{3}{16}$	—	50
10th Sept., 1925 ...	1	$6\frac{3}{16}$	—	290
11th Sept., 1925 ...	1	$6\frac{3}{16}$	—	485
12th Sept., 1925 ...	1	$6\frac{3}{16}$	—	490
14th Sept., 1925 ...	1	$6\frac{3}{16}$	—	1,080
15th Sept., 1925 ...	1	$6\frac{3}{16}$	—	463
16th Sept., 1925 ...	1	$6\frac{3}{16}$	—	425
28th Sept., 1925 ...	1	$6\frac{3}{16}$	—	200
29th Sept., 1925 ...	1	$6\frac{3}{16}$	—	150
30th Sept., 1925 ...	1	$6\frac{3}{16}$	—	100
3rd Oct., 1925 ...	1	$6\frac{3}{16}$	—	20
7th Oct., 1925 ..	1	$6\frac{3}{16}$	—	100
9th Oct., 1925 ...	1	$6\frac{3}{16}$	—	100
10th Oct., 1925 ..	1	$6\frac{3}{16}$	—	475
12th Oct., 1925 ...	1	$6\frac{3}{16}$	—	100
14th Oct., 1925 ...	1	$6\frac{3}{16}$	—	555
15th Oct., 1925 ...	1	$6\frac{3}{16}$	—	345
19th Oct., 1925 ...	1	$6\frac{3}{16}$	—	670
20th Oct., 1925 ...	1	$6\frac{3}{16}$	—	485
21st Oct., 1925 ...	1	$6\frac{3}{16}$	—	190

APPENDIX 4.

Memorandum on "Stabilisation of Exchange" submitted by Mr. A. C. McWatters, C.I.E., I.C.S., Secretary to the Government of India, Finance Department.

(This Memorandum represents the result of discussions between Sir Basil Blackett, Mr. Denning and myself, and is not put forward as an expression of the the views of the Government of India.)

Desirability of and conditions requisite for stabilisation.—It may be accepted without question that there is a general desire, both on the part of the public and on the part of Government that the exchange value of the rupee should be stabilised as early as practicable and made, so far as possible, independent of Government control. So long as the world's currencies generally were in a state of disorder, any attempt to stabilise the rupee exchange would have exposed India to the serious danger of large movements in internal prices and to consequent dislocation of trade on account of the necessary readjustments. So long, moreover, as sterling continued to fluctuate in terms of gold, one great obstacle remained in the way of stabilisation since stabilisation in terms of gold would have meant continued fluctuation in terms of sterling and the greater part of India's foreign trade is conducted with sterling countries or through the medium of sterling. Considerable progress has been made in restoring the world's currencies and the primary obstacle has now been removed by the reversion of the United Kingdom to the gold standard. Assuming that there can be confidence in the ability of the United Kingdom to remain on the gold standard, stabilisation of the Indian currency in terms both of gold and sterling has within the last few months become a practical possibility. The fixation of the rupee exchange in terms of gold necessarily means that world changes in the value of gold—and in particular the monetary policy in the United States of America—will react on internal prices in India, but such risk as is involved in this is worth taking in view of the great advantages of stabilisation, and the main problem involved in stabilisation becomes the fixation of a rate which will be in the best interests of India as a whole and which can be maintained effectively.

2. *Present Position of Exchange.*—In a separate Memorandum a historical review has been attempted of the measures adopted by Government in connection with exchange and currency, especially during the last six years since the Babington Smith Committee presented its Report. The original policy which aimed at maintaining the rupee at 2*s*. gold and subsequently at 2*s*. sterling having failed, the policy during the years immediately following may be said to have been to check the downward movement of the rupee and to raise it to the level of the pre-war rate. These measures involved the contraction of, or rather the avoidance of additions to, the currency. The level of 1*s*. 4*d*. sterling was reached effectively by January 1923, though the 1*s*. 4*d*. gold level was not reached until about October 1924. At that time the sterling exchange was approximately at 1*s*. 6*d*. but during the winter and spring of 1924-25 sterling was steadily appreciating in terms of gold and the two have been approximately on a par since April 1925. The measures taken in India since October, 1924, have included considerable additions to the currency and have resulted in preventing the rise of the rupee above 1*s*. 6*d*. sterling (more recently above the upper gold point of approximately 1*s*. 6$\frac{3}{16}$*d*.), but the simultaneous rise in the sterling dollar exchange has made 1*s*. 6*d*. sterling approximately the same as 1*s*. 6*d*. gold.

3. *Prices.*—Since the result of fixation of an exchange level above the present rate may be assumed to be a lowering of internal prices in India and conversely the fixation of a lower rate will mean an increase of internal prices, attention is invited to the comparative statement of prices included in the separate historical Memorandum which has been presented to the Commission. The general level of prices, which remained remarkably steady throughout the years 1922, 1923 and 1924, has in the current year shown a downward tendency in harmony with sterling prices, and is now in the neighbourhood of 60 per cent. above the pre-war level. The difference between different classes of articles is, however, considerable as shown by the following table, which is taken from the Indian Trade Journal of 24th September, 1925.

The prices for July, 1914, are represented by the figure 100.

Wholesale prices in August 1925.

CALCUTTA:

Food grains. Cereals.	Food grains. Pulses.	Sugar.	Tea.	Other food articles.	Oil seeds.
138	128	159	138	174	148

Jute raw.	Cotton raw.	Jute manufactures.	Cotton manufactures.
134	215	177	250

All commodities.
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Making due allowance for the inevitable margin of inaccuracy in all such figures, it may at any rate be said that the level of food grain prices is appreciably below the general level. In this connection the unusual sequence of four good monsoons has to be taken into account. Certain classes of other agricultural produce, however, *e.g.*, raw cotton, are standing at a much higher level.

As in all other countries there has been a general break away from the price levels current before the war, though the maximum divergence in India has been somewhat less than in most countries.

In respect of long term contracts expressed in rupees which are not alterable with changes of prices, the result of this rise in prices, broadly speaking, has been to benefit the debtor at the expense of the creditor, especially in so far as the former is a producer—and the bulk of the debtor class in India are agriculturists. The agriculturist, in so far as his money debts are concerned, has benefited by the rise in prices, since agricultural produce will bring in more rupees now than in 1914. The lowering of exchange to 1*s.* 4*d.* would give him a further additional advantage. The rise to the 1*s.* 6*d.* rate is, broadly speaking, at the expense of the debtor class, but for the reason given above it may be considered to some extent a readjustment of the inequality caused by the rise in prices. A particular class of such debts is represented by the land revenue which is ordinarily settled for a period of 30 years. *Vis-à-vis* Government therefore the payer of land revenue (in so far as he is either himself an agriculturist or is able to get the benefit of higher prices through increasing rents) is at an advantage since the real burden of his land revenue has been reduced. This advantage remains until the land revenue is readjusted at resettlement.

The Babington Smith Committee, in paragraphs 44 to 54 of their Report, attempted an elaborate analysis of the effects of higher and lower prices upon different classes of the population and on different interests. This analysis shows that the effect upon different classes, even among producers, as well as upon wage earners and those engaged in industry, is exceedingly complex. So far as the producer is concerned—and it is in his interests that higher prices are usually advocated—there remains one important consideration that if he has a surplus available for expenditure, this can only be of value to him if he purchases something with it, and as the assumption is that general prices will have risen, his surplus for expenditure will go no further than a smaller amount at a lower level of prices. It is doubtful therefore if the real purchasing power of the agriculturist would be much affected by a difference in the level of exchange after the inevitable price adjustments had taken place.

The present reluctance of the agriculturist to buy as much cloth as he used to do in normal times is not a definite proof that his purchasing power has been reduced. The main cause seems to be the disproportionately high level of cloth prices. There is evidence that he has been buying gold in large quantities and the attraction here seems to be its relative cheapness. The price of gold has recently been even below pre-war rates, while the prices of cotton piece-goods are certainly not less than 100 per cent. above the pre-war level. There would seem to be a level of prices at which the cultivator will buy cloth freely, and if prices rise above that figure he will do no more than satisfy his most urgent requirements

So far as the external trade of the country is concerned, the conclusion which it is desired to suggest is that the effect of a higher or lower level of exchange is in the long run not of very great importance. Exports and imports (in the widest sense) must eventually balance if the country is to continue to pay its way and it is impossible indefinitely to stimulate one at the expense of the other. So far as particular classes of the community are concerned, the effects in the long run

are not large except in so far as those on fixed salaries and wages are concerned who may find difficulty in effecting a readjustment commensurate with a higher level of prices. These conclusions must, of course, be qualified by the statement that the larger the alteration in the level of exchange attempted, the more difficult becomes the process of readjustment. The immediate effect until readjustment has taken place may, however, be considerable, since wages tend to lag behind prices, and long term contracts are not susceptible of speedy readjustment. The producer therefore, so far as he is not handicapped by any special conditions of his position or tenure will, if exchange is lowered, tend to gain in the period of readjustment. Similarly, the raising of exchange to a higher level than 1*s.* 6*d.* would during the period of readjustment operate to the disadvantage of producers and those engaged in industry, and there is no reason to expect that this temporary disadvantage would be offset, as it was when exchange was rising during 1924, by any corresponding rise in sterling prices or in world prices generally. It is largely for this reason and in consideration particularly of the special difficulties with which industries in certain parts of India are faced, that the Government of India took the view that a rise in exchange above 1*s.* 6*d.* was undesirable. This view has received added strength in recent months in consequence of the downward tendency of Indian prices, since the fixation of exchange above 1*s.* 6*d.* would have the result of a further lowering of prices and might necessitate a further readjust ment of wages.

4. *Effect on Government Finances.*—The Budget of the Government of India for the current year was based upon a figure of 1*s.* 6*d.* to the Rupee for their sterling expenditure. The nett sterling expenditure of the Central Government charged to revenue in the current year's Budget (excluding Railway expenditure which under the scheme of separation of Railway finances does not enter directly into the general Budget) was £18,941,100, and the increase in Central expenditure if exchange were taken at 1*s.* 4*d.* would be 3,16 lakhs. In the Railway Budget the increase which would similarly have to be allowed for in their sterling expenditure would be Rs. 1,01 lakhs. Further, the expenditure charged to capital would have increased by Rs. 1,68 lakhs under Railways, 2½ lakhs under Posts and Telegraphs and Rs. 63,000 under New Delhi. The increase in the Railway capital expenditure would affect both the provision for depreciation and the ordinary working expenses on maintenance for which stores are issued from capital. The effect on the Railway Budget might well be such as to require either an increase of rates and fares or a revision of the terms on which the Railways contribute to general revenues, thus increasing the loss to general revenues beyond the 3,16 lakhs mentioned above. Assuming further that prices in India rose, there would be some extra expenditure on stores purchased in India, and some readjustment of salaries of Government servants, who would be affected by the increased cost of living, might be inevitable.

The immediate effect on the Government of India's finances (and to a lesser extent on those of local Governments) would be considerable, and so far as the current year is concerned, the fixation of exchange at 1*s.* 4*d.* would certainly have prevented the reduction which was made of the Provincial contributions.

When however the ultimate effect on Government finances is considered, the position is different. Experience does not show that an alteration in exchange has much permanent effect on the external trade, and ultimately some portion of the loss might be made up from increased customs revenue on such articles as are assessed on an *ad valorem* basis. These however are little more than one-half of the total, the remainder being tariffed at specific rates of duty. No estimate can be framed of any increase which might result under taxes on income, such increase being in any case problematical. The proceeds of land revenue (which is Provincial) could not, as shown above, be augmented except over a prolonged period. But it is at any rate safe to say that while the immediate loss would be considerable and would probably require to be made up by increases in taxation, if the Budget were to be balanced, and still more if further reductions in the Provincial contributions or in existing forms of taxation were contemplated, the ultimate loss after readjustment would probably be considerably less.

The same remarks apply, *mutatis mutandis*, to the immediate and ultimate gain to Government revenues from the fixation of a higher rate than 1*s.* 6*d.*

5. *Attainment and Maintenance of the New Ratio.*—If any rate other than the existing rate is selected for stabilisation, the question arises as to the means to be adopted for reaching the new rate and for making it effective. If the movement is to be upward, a considerable period of instability of exchange

seems likely to follow before the rate selected is reached. Although conditions at present appear to point towards strength in the exchange during the coming busy season, a policy of allowing the rate to move upwards would inevitably involve Government standing out of the sterling exchange market for a time and might result in their having to meet the Secretary of State's requirements by drawing on the Gold Standard Reserve or by borrowing in London. The experience of the years 1921 to 1923 illustrates how much was required in order to raise exchange from about 1*s.* 3*d.* even to the pre-war level. For a prolonged period Council Bills were not offered and in spite of the large sterling payments still continuing mainly on War Office account, sterling loans of large amounts were raised during this period. It might well be that the establishment of a higher rate than 1*s.* 6*d.* would again involve borrowing in England or drawing on the sterling reserves. A period (or succession of periods) of exceedingly tight money in India would certainly result and a serious dislocation of trade could scarcely be avoided.

Another factor which would begin to operate would be the increased inducement offered to import gold owing to the cheapening of its price and this factor would add to the difficulty of supporting exchange at the new level. Taking a longer view, we have also to envisage the possibility of conditions the opposite of those which exist to-day which are the result of four good monsoons. A failure of the monsoon next year might at once require bringing into play the sterling resources of Government with the object of supporting exchange at the higher level. If the level selected were unduly high, there might be a serious risk of Government's resources being insufficient to maintain exchange, if there were a series of bad seasons.

The movement to a rate below 1*s.* 6*d.* would probably occur very rapidly. There is always a considerable amount of latent demand for remittance to England and if the decision to adopt a lower rate were announced remitters would at once endeavour to obtain the best price for rupees which they could get until the rate announced was reached. The tide would then turn the other way and there would be a very large demand for rupees at the new rate. This would have to be met by additions to the currency. The amount of this may perhaps be judged from the fact that in the first six months of this year, since 1st April, 1925, even at the slack season of trade, purchases of sterling by Government aggregating £21 millions, *i.e.*, two-thirds of the total Government remittances required during the whole year, were required to prevent the rate from rising above 1*s.* 6$\frac{3}{16}$*d.* We cannot afford to overlook the dangers of the position, which would be occasioned by such a rapid fall, to importers who had not fixed their exchange. The troubles in this respect of 1920-21 are a warning which it would be foolish to ignore, although the fall in exchange of this period was, of course, much greater than any change now contemplated.

Once the lower level were reached, there would probably be no difficulty in maintaining it, except in the conditions referred to in the next paragraph.

6. *Bullion Value of the Rupee and the Danger of Melting.*—One danger which is greater at a lower rate of exchange is the danger arising from fluctuations in the price of silver. The rupee is a coin of 180 grains, $\frac{11}{12}$ fine, and with exchange at 1*s.* 4*d.* the melting point of the rupee is reached approximately when silver prices rise above 43*d.* per standard ounce in London. With exchange at 1*s.* 6*d.* the melting point is 48*d.* and at 1*s.* 8*d.*, 54*d.*

The price of silver before the war from 1893 to 1914 varied between 38$\frac{3}{4}$*d.* (the highest in 1893), and 21$\frac{11}{16}$ (the lowest in 1902), and for the greater part of the period was below 30*d.* During the war and afterwards the fluctuations were extreme, the highest price being 89$\frac{1}{2}$*d.* in February, 1920, while by the 5th March in the following year it had fallen to 30$\frac{5}{8}$*d.* In the last financial year the fluctuations were between 36$\frac{1}{16}$*d.* (in October, 1924) and 31$\frac{1}{2}$*d.* (in December, 1924) and the latest prices have been in the neighbourhood of 33*d.*

It is not likely that the extreme fluctuations of the war will recur except in the event of a world calamity of a similar magnitude, but it has to be realised that as long as the rupee is an overvalued token coin and retains its full legal tender character, this danger to the Indian currency system, which was the principal cause of its breakdown during the war, remains. It is necessary, therefore, to be certain that the rate selected should be one which allows a sufficient margin of safety. This margin can only be estimated by those who can form a judgment as to the probable limits of fluctuation of silver prices, but it is open to question whether a melting point of 43*d.* which is less than 7*d.*

above the price reached by silver only last year, allows a sufficient margin. The margin which was sufficient in the conditions before the war might well prove insufficient now.

7. *Conclusion.*—The conclusion to which this memorandum points is that there appear to be distinct advantages in accepting the present position and retaining the rate which has been made effective for the last twelve months. Prices may be said to have adjusted themselves to this level and no substantial readjustments would be required. In the event of stabilisation at a rate substantially higher or lower, readjustments would inevitably be necessary. In the former event, such readjustment could hardly be effected without a substantial tightening of the money market and dangers (which are not negligible) to Indian industries (particularly in Bombay) and to the export trade. If a lower rate is selected, it would, for reasons given in paragraph 5 above, be difficult to avoid considerable disturbances, especially in the import trade, and for some time to come the reaction on Government's financial position would be serious. Extra taxation, or, at the least, the postponement of reductions of taxation and of relief to the Provinces, would be inevitable. Finally, it may be said that in view of the changes in the price level since 1914, there can be nothing sacrosanct about the pre-war level of exchange, since the change in the price level has already upset the basis of all pre-existing contracts between debtor and creditor.

APPENDIX 5.

Memorandum on a Gold Standard for India submitted by Mr. H. Denning, I.C.S., Controller of the Currency.

Introductory.—This memorandum represents the result of discussions between Sir Basil Blackett, Mr. McWatters and myself, and is not put forward as an expression of the views of the Government of India. It examines the defects in the pre-war system of currency and exchange, and the possible methods of remedying these defects. Throughout the memorandum it is assumed that the rupee will be stabilised, and for the purpose of converting gold and sterling values into rupees it is assumed that sterling remains at parity and that the rate of exchange at which the rupee is stabilised is the present rate, 1*s.* 6*d.*

2. *Main Defects of the Pre-War Currency and Exchange System.*—The main defects of the pre-war currency and exchange system, usually described as the Gold Exchange Standard, were as follows:—

(A) The maintenance of the system was dependent on the price of silver remaining at such a figure that the bullion value of the rupee was not higher than its exchange value.

(B) The rupee was in reality linked to sterling only, and the system ceased to be a gold exchange standard as soon as sterling depreciated.

(C) The system did not provide for the automatic stabilisation of the rupee. The legal obligation to give rupees in exchange for sovereigns would have prevented the rate of exchange rising above the upper gold point, even if Government had not been prepared to meet fully the demand for Council bills at 1*s.* 4⅛*d.*, but there was no statutory safeguard against a fall in the rate of exchange below the lower gold point. In practice, such a fall in the rate of exchange was prevented by the sale of Reverse Councils, but Government were under no statutory obligation to take such action.

(D) Although it was possible for the public to obtain as much additional currency as they required by buying Council bills or importing sovereigns, there was no automatic provision for contracting the currency. In so far as the sterling value of Reverse Councils sold was obtained by realising sterling securities in the Paper Currency Reserve, the currency was contracted, but Government could arrange by borrowing from the Gold Standard Reserve to meet sterling payments on account of Reverse Councils without affecting the amount of currency in circulation. In other words, when exchange dropped to the lower gold point, there was no automatic decrease in the currency tending to strengthen exchange, but such decrease depended on the action of Government.

(E) As the currency reserves were divorced from the banking reserves, effective regulation of the money market was impossible.

3. *Methods of Remedying these Defects.*—In theory, the danger of a breakdown of the system on account of defect (A) could be decreased either by raising the par of the rupee exchange or by decreasing the weight or fineness of the rupee. Recent history has shown conclusively that there are insuperable practical difficulties in raising the par of the rupee exchange to such an extent that the danger of breakdown can be neglected. The alternative of reducing the weight or fineness of the rupee was examined fully by the Babington Smith Currency Committee, and, for the reasons stated in paragraph 38 of the Report of that Committee, may be rejected as impracticable as long as the rupee is full legal tender. The only method of remedying defect (A) completely is to make the silver rupee a subsidiary coin of limited legal tender and to substitute for it other forms of full legal tender currency, either notes or gold.

4. Defects (B) and (C) could be remedied without departing from the gold exchange standard, *e.g.*, it would be possible to prescribe by statute that currency notes should be payable on demand in rupees or in foreign exchange at the option of the presenter, provided that, if payment were demanded in foreign exchange, a charge might be made not greater than the cost of transporting gold to the foreign country on which exchange was demanded. Foreign exchange might be defined as transfers at the par of exchange on London or on prescribed foreign banks in countries outside Great Britain, and the Governor-General in Council might be authorised to prescribe by notification from time to time the foreign banks on which transfers would be issued, subject to the condition that at least one such foreign bank situated in a country having a gold standard currency must be so prescribed. Such a system would be a real gold exchange standard, as it would involve a statutory obligation to give in exchange for rupees a foreign currency which would be the equivalent of gold, and it would probably be as satisfactory a method of remedying defects (B) and (C) as a gold standard with a gold currency in circulation.

5. With a gold exchange standard, such as has been sketched above, it would theoretically be possible to remedy defect (D) by amalgamating the Gold Standard Reserve and the Paper Currency Reserve into a single Currency Reserve. Such an amalgamation, however, presents considerable practical difficulties. The currency of the country would consist of—

(*a*) overvalued silver rupees convertible into foreign exchange which would be the equivalent of gold, and

(*b*) notes convertible into silver rupees or foreign exchange as above.

The Currency Reserve would, therefore, have to be so constituted as to provide for (1) the convertibility of notes into rupees, and (2) the convertibility of rupees and notes into foreign exchange. It would have to consist of silver coin (and, possibly, silver bullion), rupee securities, sterling or other gold securities, and gold. The amount of silver coin and bullion necessary would be comparatively easy to determine, as it would depend entirely on the volume of the note issue, but the amount of gold and gold securities would have to bear a relation to the volume of the note issue *plus* the difference between the exchange and bullion value of the rupees in circulation and in hoards. Owing to the fact that at various times very large quantities of rupees have been melted and exported, it is impossible to frame a reasonably accurate estimate of the amount of rupees in circulation. It would be possible to get over this difficulty by assuming an outside figure for the amount of rupees now in circulation, but such an assumption would involve a larger reserve in gold and gold securities than would be really necessary. Even if such an assumption were made, it would be impossible to fix the difference between the exchange and bullion value, not only of the rupees already in circulation and in hoards, but also of rupees to be issued hereafter, because the price of silver varies from day to day. It would, therefore, be practically impossible to fix a figure for the amount of gold securities and gold which would bear a definite relation to the liabilities outstanding in the form of notes *plus* the difference between the exchange and bullion value of the rupees in circulation and in hoards. It follows that with a gold exchange standard it is almost essential that a separate reserve should be maintained to provide against a return of rupees from circulation. As long as a separate reserve is maintained it will rest with the authority controlling the reserves to contract the currency or not at times when exchange falls to the lower gold point. It is, therefore, practically impossible to remedy defect (D) without taking away the full legal tender character of the rupee.

6. As long as the banking reserves of the country were divided among the three Presidency Banks it was impossible to remedy defect (E), but the amalgamation of the Presidency Banks into the Imperial Bank of India has paved the way

for the concentration of all the money reserves of the country in the hands of one central controlling authority. The question of handing over to the Imperial Bank of India the control of the note issue will be discussed fully in another memorandum, but as the nature of the currency system adopted materially affects the problem, it is necessary to refer briefly to the subject here. In para. 5 it has been shown that it is practically impossible to constitute a single currency reserve as long as the silver rupee is full legal tender. If, therefore, a bank note issue were substituted for a Government note issue, the Bank's reserve against this note issue would be so constituted as to provide definitely for meeting the liability to redeem notes in silver rupees or foreign exchange, and the liability to redeem silver rupees outstanding would have to be provided for by a separate reserve. Coinage is obviously a function of Government, and Government would continue, as in the past, to take the profit on any additional rupees which might be coined in the future. It would be necessary, therefore, for Government to retain the liability to redeem silver rupees outstanding, and to control the reserve maintained to meet this liability, and some definite arrangements would have to be made between Government and the Imperial Bank by which the reserve would be used to strengthen the Bank's sterling reserves in the event of a return of rupees from circulation. An attempt will be made in the memorandum dealing with the question of handing over the note issue to the Imperial Bank to suggest workable arrangements of this nature, but it will be seen that they would be rather cumbrous and would, in effect, divide the responsibility for the maintenance of the exchange value of the rupee between Government and the Imperial Bank. If the full legal tender character of the silver rupee were taken away, the difficulties in constituting a single bank reserve against the note issue would disappear, and it would be possible to vest the management of all the reserves of the country in the hands of the Imperial Bank of India.

7. To sum up, two of the main defects of the pre-war currency and exchange system can be remedied completely, and a third partially by modifying the system so as to make it a genuine gold exchange standard, but the other two defects, one of which is of special importance as it was mainly responsible for the breakdown of the system during the war, cannot be remedied unless the silver rupee is made a subsidiary coin of limited legal tender and is replaced, except in so far as it is required for small change, by other forms of full legal tender currency, either notes or gold.

8. *Conclusion that a Gold Standard is the only Method of completely Remedying Defects within a Reasonable Period.*—Undoubtedly, the ideal to be aimed at is the system now in force in Great Britain under which the note is the sole full legal tender in circulation, and the gold value of sterling is stabilised by the statutory obligation imposed on the Bank of England to buy and sell gold at rates corresponding roughly to the par of exchange. It is impossible, however, to hope that conditions in India will for generations be such that a full legal tender metallic currency will be no longer necessary. If, therefore, a gold currency is not introduced, defects in the Indian currency and exchange system must remain indefinitely. There is, moreover, reason to suppose that the introduction of a gold currency would hasten the attainment of the ideal system, as the fact that notes were convertible into gold and not merely into an overvalued silver coin would tend to increase confidence in the note issue and to decrease the demand for metallic currency. The conclusion is that the only way of remedying all the defects in the system within a reasonable period is by establishing a gold standard with a gold currency in circulation.

9. *Main Obstacle to the Introduction of a Gold Standard.*—The chief obstacle in the way of introducing a real gold standard is the fact that it would involve a liability to give gold coin in exchange for rupees. The magnitude of this liability is indeterminate, because it is impossible to estimate with any reasonable degree of accuracy either the amount of rupees in circulation and in hoards, or the amount of rupees which would be retained in circulation for small change. There is no doubt, however, that it would not be safe to undertake at once this liability without accumulating a very large store of gold coin, a course which presents such serious difficulties as to be almost impracticable. It would, therefore, be necessary to proceed by stages.

10. *Introduction of Gold Standard by Stages.*—The following stages are suggested:—

(I) A statutory obligation should be imposed on Government to sell to any person, who makes a demand in that behalf at the Bombay Mint

and pays the purchase price in any legal tender, gold bullion at a price equivalent to the par of exchange, but only in the forms of bars containing a fixed minimum weight of fine gold (say 400 ounces troy). A statutory obligation should also be imposed on Government to give, in exchange for gold bullion, notes or silver at a price equivalent to the par of exchange less a small seigniorage charge.

(II) A gold coin should be put into circulation and offered as freely as resources permit in exchange for notes and silver rupees at Currency offices, treasuries, and branches of the Imperial Bank of India, without any definite obligation to give gold coin for notes or silver rupees being imposed.

(III) After a period fixed by statute (say five years) the liability to give gold coin in exchange for notes or rupees and also for gold bullion on payment of a seigniorage should be imposed.

(IV) After a further period fixed by statute (say five years) the silver rupee should be made legal tender for sums up to a small fixed amount only (say Rs. 50).

11. *Extent of Demand for Gold.*—It is now necessary to consider the probable extent of the demand for gold at these successive stages and the methods of meeting this demand. For this purpose the following assumptions, all of which are on the safe side, are made :—

(*a*) That the total amount of rupees presented by the public for conversion into gold would not appreciably exceed 100 crores. As there are about 90 crores of silver rupees and silver bullion (valued at Re. 1 per standard tola) in the Paper Currency Reserve, it would be necessary to provide gold or gold securities of the value of about 200 crores.

(*b*) That the sale of the silver in the Paper Currency Reserve and additional silver obtained by melting rupees returned from circulation would be spread over a period of ten years and the average price obtained by Government would not be less than 24 pence per standard ounce (as against the present price of 33 pence), *i.e.*, that half the exchange value of the rupees would be realised.

(*c*) That until the demand for gold involved by the introduction of stage (I) had been satisfied, and possibly longer, the legal constitution of the Paper Currency Reserve would not demand a larger holding of gold and sterling securities than would be essential for dealing with a crisis. That gold and sterling securities would be considered as interchangeable and that Government would be prepared to allow the holding of gold and sterling securities to go as low as 30 per cent. of the gross note circulation, the remainder of the reserve being held in rupees and rupee securities, with possibly a limit to the rupee securities of 50 per cent. of the gross note circulation.

(*d*) That when the rupee is finally made a subsidiary coin of limited legal tender, the permanent constitution of the Paper Currency Reserve would be :—

(i) A minimum of gold and sterling securities equal to 50 per cent. of the gross circulation.

(ii) A minimum of gold which should ordinarily be equal to 30 per cent. of the gross note circulation, but might be reduced under certain conditions providing for a seasonal expansion of the currency.

(iii) The remainder should be rupee securities of which not more than a fixed amount, say 90 crores, should be Government securities and the remainder should be bills of exchange or other self-liquidating securities.

(*N.B.*—The constitution of the Paper Currency Reserve is considered more fully in another memorandum.)

On the above assumptions, taking the note issue at 189·5 crores, the figure at which it stood on the 30th September, 1925, the amount of gold and sterling securities required for the Paper Currency Reserve would be—

(i) During stage (I)—Gold and sterling securities 56·9 crores.

(ii) Eventually—Gold 56·9.
Sterling 37·9.

On the 30th September, 1925, 29·7 crores of gold and 80 crores of sterling securities were held in the Paper Currency Reserve and the Gold Standard Reserve.

N.B.—The amount of sterling reserves will probably increase considerably during the next few months, but this possibility is not taken into account.

12. *Method of Meeting the Demand for Gold.*—On the introduction of stage (I), no demand on Government for gold to replace currency in circulation could be made as gold currency would not be available, and the drain on the Government reserves would arise only from the substitution of gold for rupees already in hoards, and the demand for gold for fresh hoards and for industrial purposes. Gold for these purposes is now being supplied by the private imports of gold at approximately the same price as it would be obtainable from Government, and the only new factor affecting the extent of this demand would be the psychological effect of the declared intention of Government to reduce the rupee to the level of a subsidiary coin in bringing out additional hoards of rupees for conversion into gold bullion. Apart from the large hoards of rupees held by Indian States, the conversion of which it should be possible to postpone by special arrangements, comparatively few hoards would be large enough to buy the minimum quantity of gold sold by Government, even if it were convenient for the holders to present their rupees in Bombay, and practically all the demand for gold would continue to be met through the bullion merchant as it is at present. The bullion merchant, however, would obtain his gold from Government instead of importing it. The immediate effect, therefore, of the introduction of stage (I) would be that Government would have to supply to the bullion market the gold imported under present conditions and the gold required to convert additional hoards of rupees brought out for conversion. These hoards would not all be brought out suddenly, but the bullion merchants all over the country would probably lay in considerable stocks of gold in anticipation of the increased demand. Thus, there would probably be a first rush on the reserves of Government equal to the amount of the stocks the bullion merchants were prepared to hold plus the small amount of rupees presented direct from hoards. As the holding of stocks is expensive, and it would be possible to obtain further supplies quickly, the aggregate amount of the first demand would not be very large and a stock of 50 crores of gold in Bombay would almost certainly be sufficient.

13. As soon as the obligation to buy and sell gold was undertaken, it would be unnecessary for Government to enter the exchange market, except for the purpose of remitting the Home charges, as exchange would automatically be kept within the gold points by the movements of gold. Assuming that stage (I) were introduced at a time when there was a considerable balance of trade in India's favour, and Government made no remittances at all, but met the Home charges from the sterling reserves, the rate of exchange would promptly go to the upper gold point and the Exchange Banks would have to import gold to cover their purchases of sterling. The amount of gold imported by them would be approximately equal to the private imports of gold under the present system plus the amount of the normal Government remittances. It would not matter from the point of view of the drain on the Government reserves whether this gold imported by the Exchange Banks were sold to Government or to the bullion merchants. In either case the net result would be that the private imports of gold would, shortly after the introduction of the new system, be at least as large as under the present system, and could be increased to the extent of the normal Government remittances, by Government meeting its sterling expenditure from its sterling reserves. Taking the sterling expenditure as £35 millions, or 46 crores, annually, and neglecting remittance by Government in excess of the sterling expenditure, Government could force an increase in the private imports of gold of approximately 46 crores annually. After the first rush, it is unlikely that the increase in the demand for gold would exceed or even reach this figure and the Government gold reserves would probably remain intact and might increase. The sterling reserves, however, would be used up in meeting the Home charges.

14. Proceeding on the assumptions in paragraph 11 above, the amount of gold and sterling available from the present reserves would be (109·7—56·9) 52·8 crores, of which 29·7 crores would be gold. It seems probable, therefore, that it would be possible to provide the gold necessary for the introduction of stage (I) by converting about 20 crores, or £15 millions, of the sterling reserves into gold to meet the first demand. The gold and sterling reserves available for

the redemption of rupees would then be practically exhausted, and it would be necessary to meet the drain on the sterling reserves mentioned in the last sentence of paragraph 13 by obtaining external credits, except in so far as it would be possible to obtain sterling by selling silver. Assuming that the sale of silver were spread over ten years, the annual receipts on this account would be 10 crores, or £7·5 millions.

15. The period which would elapse between the introduction of stages (I) and (II) would depend on the extent to which the Government gold and sterling reserves were depleted by the introduction of stage (I), but stage (II) would be entered upon as soon as the Government reserves of gold had accumulated to an extent sufficient to enable gold coin to be put into circulation and to enable the supply of such coin to be kept up continuously. During this stage it would be possible to regulate the drain on the gold reserves, and no special measures for supporting these reserves in order to meet a temporary rush for gold would be required. A supply of 10 crores worth of gold per annum would be obtained by the sale of silver, but this might not be sufficient to meet the demand without unduly depleting the Paper Currency Reserve, and it might become necessary to supplement the supply by external borrowing.

16. Assuming that during stage (II) gold currency had been made freely available, the introduction of stage (III) would not lead to any great increase in the demand for gold coin. The public would for some time have been able to obtain gold coin in exchange for rupees, and the fact that an obligation was imposed to give an exchange which had already been given in practice for some time would probably make little difference in the demand.

17. Before the introduction of stage (IV), Government would have to notify some time in advance their intention to declare the rupee limited legal tender, and in fairness to the less advanced sections of the public the notification would have to be published as widely as possible throughout the country. The publication of this notification would probably bring out a few more rupees from hoards, but the additional demand for gold would not come with a rush and would probably not be very large, as the greater part of the hoards of rupees would have been replaced by gold during the earlier stages.

18. *Total Amount of Gold Required.*—As the demand for gold during the various stages after stage (I) would be spread over a considerable period and would probably not be large at any given time, it is unnecessary to attempt an estimate of the amount of gold required at each stage. It is necessary, however, to attempt to obtain an idea of the total amount of gold required. Proceeding on the assumptions in para. 11, the amount of gold required would be the gold equivalent of the 110 crores of rupees converted by the public plus 27·2 crores, the difference between the amount of gold in the Paper Currency Reserve as finally constituted and the amount of gold at present held in the Paper Currency Reserve, i.e., 137·2 crores, or about £103 millions. Of this amount probably £15 millions would be required at the time of the initiation of stage (I), a further £35 millions within a year, and the remainder over a period of 10 years. This large drain of gold to India, in addition to imports on the present scale, might, if it were not regulated seriously affect gold prices, and it would probably be necessary to enter into arrangements with the Bank of England and the Federal Reserve Bank of the U.S.A. in order to reduce the disturbance in world prices to a minimum.

19. *Effect on Silver Market.*—The disturbance in the silver market which would be caused by the sale of silver equal in amount to the world production of nearly three years also requires very serious consideration (the amount of fine silver in 200 crores of rupees is 687,500,000 fine ounces, while the world's production of silver in 1923 was 242,418,410 fine ounces). It would be necessary to spread the sales over a long period, not only with a view to obtaining a better price but also with the object of diminishing the disturbance in countries having a silver standard currency and the adverse effect on the prosperity of the silver mining industry throughout the world. If the sales of silver were spread, as proposed, over a period of ten years, the amount of the annual sales would be approximately equal to the average net import of silver in recent years. It would be worth considering whether the import duty of 4 annas an ounce (with no corresponding drawback) should not be reimposed. This would have the effect of reducing the loss involved in the sale of silver.

20. *Cost of Introducing Gold Standard.*—Finally, there is the question of the cost of the scheme which may be dealt with under the following heads :—

(a) *The net cost of converting silver rupees into gold.*—The real assets held in the Government reserves at present are :—

	Crores.
Gold and sterling securities in the Paper Currency Reserve	56·4
Sterling securities in the Gold Standard Reserve	53·3
Value of silver in the Paper Currency Reserve (at 24 pence per standard ounce)	45
Total	154·7

Assuming that 90 crores of Government rupee securities would be held in the reserve as finally constituted, 99·5 crores of the above assets would be used for the new reserve, leaving 55·2 crores available for the cost of redemption of 110 crores of rupees presented by the public. The real assets in the reserve, therefore, are just sufficient to cover the actual cash cost, but Government would have to issue about 33 crores of securities to the Paper Currency Reserve or create a book debt of this amount. The final recurring cost would be the difference between the interest now received on sterling securities in the Paper Currency Reserve and the Gold Standard Reserve and the interest which would be received on the sterling securities in the reserve as finally constituted, i.e., the interest on (80-42·6) = 37·4 crores, which at 3 per cent. amounts to 112 lakhs per annum.

(b) *The cost during the transition period.*—During the transition period a part of the Government assets would be locked up in silver, the gold value of which could not be realised immediately owing to the necessity of spreading the sale of surplus silver over a period of years. On the other hand, on the assumption made in paragraph 11 (*c*) it would be unnecessary for Government to hold more gold and gold securities in the reserves than would be necessary to meet a sudden large demand. The loss involved in holding a large store of rupees would thus to some extent be met by drawing on the present reserves of gold and gold securities at the inception of the scheme and replacing the amount required to make up the reserve as finally constituted at a later stage from the gold assets obtained from the sale of silver. In paragraph 14 it is estimated that it would be necessary to convert 20 crores of gold securities into gold before the introduction of stage I. Initially, therefore, there would be a loss of interest on 20 crores of gold securities which at 3 per cent. amounts to 60 lakhs per annum. Assuming that the whole of the stock of gold would be used on the introduction of stage I and that Government would have to hold a stock of 10 crores of gold continuously during the transition period, a further 10 crores of gold securities would have to be converted into gold shortly after the introduction of the scheme, involving a further loss of interest of 30 lakhs. The loss of interest throughout the transition period would thus be 90 lakhs per annum. In paragraph 14 it has been stated that 52·8 crores of gold or gold securities would be available from the present reserves for redeeming silver rupees presented by the public, and it is estimated that the amount of rupees presented for conversion into gold on the introduction of stage I would not exceed this figure. Thereafter, external credits would have to be obtained, the amount of which would depend on the amount of silver converted by the public *less* the amount realised by the sale of silver. It seems unlikely that the maximum amount of the external credit would exceed 30 crores, and by the end of five years the external credit would probably have been repaid completely from the proceeds of the sale of silver. Assuming that the average amount of the external credit would be 15 crores, the average recurring cost at 5 per cent. would be 75 lakhs. During the first five years, therefore, the average recurring cost would be 90 + 75 = 165 lakhs. Thereafter, the annual cost would depend on the extent to which the gold held in the reserve was increased. It would be possible to keep the cost down to 90 lakhs per annum by limiting the increase in the reserve of gold to the amount realised by the sale of silver in the reserve, i.e., 10 crores per annum, but it would probably be advisable to convert the excess gold securities into gold gradually. If this were done, the annual cost during the second five years would gradually rise from 90 lakhs to 112 lakhs, the final recurring cost.

21. *Nature of the Gold Coin.*—A subsidiary question for consideration is the nature of the gold coin to be introduced. From the point of view of the working of the system it is of little importance whether the sovereign or a new distinctive coin representing so many rupees be adopted, and the question can be decided mainly on grounds of expediency, due deference being paid to Indian opinion. The main arguments in favour of the sovereign are (to quote the report of the Babington Smith Currency Committee) that "it will be more advantageous to India to continue to use the form of gold currency to which she has been accustomed and which, on account of its wide circulation, is a universally recognised medium for the settlement of external obligations."

The arguments in favour of a distinct gold coin for India are as follows:—

(*a*) The coinage of a distinct coin could be undertaken by the Government of India at their own Mint, whereas the coinage of the sovereign in India would necessitate the establishment of a Branch of the Royal Mint in India with all its incidental disadvantages.

(*b*) The putting of the sovereign into circulation almost necessarily implies that the rate of exchange would be fixed so that there would be an even number of rupees to a sovereign, whereas the rate of exchange is immaterial if India has a separate gold coin.

(*c*) The balance of Indian opinion on the subject is probably in favour of a separate gold coin.

(*d*) At first, at any rate, a separate gold coin would probably not be used to such a large extent as the sovereign for ornaments and hoarding.

It is submitted that the balance of advantage appears to be decidedly on the side of a separate gold coin for India. If so, the coin might be of the same fineness as the sovereign, and it is suggested that its denomination might be Rs. 20, as a smaller coin than this would be subject to very rapid wastage from wear and tear. (If exchange were fixed at 1*s.* 6*d.* the new coin would then be the equivalent of £1 10*s.*). If the decision be in favour of a distinct Indian gold coin, it would probably be advisable to take away the legal tender character of the sovereign. This could be done without notice, as an opportunity was given in 1920 to holders of sovereigns to exchange them into rupees at Rs. 15 to the sovereign, and the new legal tender ratio of Rs. 10 to the sovereign has never been effective. If such action were taken, it would probably be advisable to modify the obligation to be imposed on Government at stage (I) (*vide* paragraph 10 (I) above) so as to enable Government to give at their option instead of gold bars of 400 ounces troy sovereigns containing an equivalent amount of gold. This modification of the obligation would enable Government to use its present store of sovereigns, amounting to nearly £17½ millions, without the expense of melting and refining, and would also enable the public to obtain gold in a form which is very popular.

22. *Conclusion.*—The conclusions arrived at may be summarised as follows:—

(*a*) The only way to remedy completely the defects in the pre-war currency and exchange system within a reasonable period is by the introduction of a gold standard with gold coin and notes as the only forms of full legal tender currency, such a system being regarded as a stage on the road to a more perfect system in which notes would in practice, at any rate, be the main form of unlimited legal tender.

(*b*) It is possible to introduce such a system by stages, extending over a period of about ten years.

(*c*) The recurring cost to India would be about Rs. 165 lakhs per annum during the first five years, and about 112 lakhs per annum thereafter.

(*d*) The drain of gold to India and the sale of large quantities of silver might have serious world consequences, which would inevitably react on India, but it would probably be possible to avoid serious world disturbance by suitable arrangements.

APPENDIX 6.

Memorandum on " Transfer of the Management of the Paper Currency to the Imperial Bank of India " submitted by Mr. H. Denning, I.C.S., Controller of the Currency.

1. *Introductory.*—This memorandum represents the result of discussions between Sir Basil Blackett, Mr. McWatters, and myself, and is not put forward as an expression of the views of the Government of India. It attempts to bring together all the main points which will arise in considering the question of the transfer of the management of the Paper Currency to the Imperial Bank of India, except the nature and extent of the Government control over the Bank and the adequacy of the Bank's capital. In writing it, the material recorded in the papers of the Royal Commission on Indian Finance and Currency, 1913-14, regarding the establishment of a Central Bank, has been drawn upon freely.

2. India is practically alone among the great trading countries of the world in possessing a system by which Government is directly responsible for the control of the note issue and other important banking business. Until 1921, there was no Central Bank to which the banking business of Government could be entrusted, but the amalgamation of the three Presidency Banks into the Imperial Bank of India has opened the way for India to follow the example of other countries.

3. *Advantages of management of Note-Issue by Imperial Bank.*—The chief advantages to be derived from the management of the note-issue by the Imperial Bank of India are as follows :—

(*a*) As the currency and banking reserves would be under the control of the same authority, the money market could be regulated more effectively, and, in particular, the wide fluctuations in money rates due to the seasonal demand for currency could be moderated.

(*b*) The responsibility of Government officials for banking business would be greatly reduced.

(*c*) Though Government would necessarily retain a measure of control of policy, the day-to-day management of the monetary resources of the country would be conducted more closely in accordance with commercial requirements.

4. *Extent of Bank's Control over the Paper Currency Reserve.*—In order that these advantages may be derived the Imperial Bank must clearly be given full control within statutory limits of the note issue and of the reserves maintained to back it. If the Imperial Bank were to manage the note-issue merely as the agents of Government without any real control over the Paper Currency Reserve, the result would probably be an increase in the cost of administration without any corresponding advantage. Full control of the note-issue and of the Paper Currency Reserve necessarily involves the substitution of bank notes for Government currency notes, as Government could hardly agree to the issue by the Bank of Government promissory notes payable on demand unless they retained control of the reserve maintained to pay them. There is little reason to apprehend that the substitution of bank notes for Government currency notes would affect appreciably the popularity of paper money. The educated portion of the population would know that the " promise to pay " of the Imperial Bank was practically as good as the " promise to pay " of Government, while the uneducated portion of the population, if they appreciated the change in the legend on the note, would be quite willing to accept bank notes, as the general idea among them is that the Imperial Bank is a Government bank. Moreover, the substitution of bank notes for Government currency notes would be gradual and any doubts which might arise at the start would be resolved in the process of substitution.

5. *Transfer to Bank of Responsibility for Maintenance of Exchange Value of the Rupee.*—The conclusion that the Imperial Bank should have full control of the Paper Currency Reserve leads to a consideration of other banking functions at present exercised by the Government of India, *viz.* :—

(*a*) The maintenance of the exchange value of the rupee by the sale of Councils or purchase of sterling and by the sale of Reserve councils, and the management of the Gold Standard Reserve.

(*b*) The remittance of money to London to meet their sterling obligations by direct operations on the exchange market.

These functions necessarily overlap one another, and the function of managing the note-issue. Government's ability to control exchange is largely due to the magnitude of their sterling purchases to meet their sterling obligations. The constitution of the Paper Currency Reserve from time to time is dependent on the exchange operations of Government, and the amount of the note circulation is regulated with a view not only to the monetary requirements of the country, but also to the maintenance of the exchange value of the rupee and to the remittance of money to London to meet the Government's sterling obligations.

6. If, therefore, the Imperial Bank is to be given control of the note-issue and the Paper Currency Reserve, it must take, at any rate, a part of the responsibility for the maintenance of exchange and for the remittance to London of the sterling requirements of Government. In another memorandum the difficulties of constituting a single Currency Reserve under a Gold Exchange Standard system have been discussed, and the conclusion has been reached that it would be necessary for Government to maintain a separate reserve for the redemption of silver rupees, but that there would be no difficulty in constituting a single Bank reserve if the full legal tender character of the rupee were taken away. The extent of the Bank's responsibility would, therefore, depend on the currency and exchange system adopted. An attempt is made in the following paragraphs to outline possible schemes showing the responsibilities which the Bank might undertake, and the constitution of its reserve :—

(*a*) With a gold exchange standard.

(*b*) With a gold standard under which gold coin and notes would be the only forms of unlimited legal tender currency.

7. *A Gold Exchange Standard with an Imperial Bank of India Note-Issue.*—A gold coin in circulation is not a necessary feature of a gold exchange standard, but it is assumed that the recommendations of the Babington-Smith Currency Committee that a gold coin should be put into circulation will be accepted. (The nature of the gold coin to be adopted is dealt with in another memorandum.) With this assumption, a possible system appears to be the following :—

(A) Gold coin, bank notes and silver rupees should be unlimited legal tender.

(B) Government should be under a statutory obligation to give gold coin in exchange for gold bullion at any time on payment of a seigniorage to cover minting charges.

(C) The Imperial Bank should be under a statutory obligation to buy gold bullion in the same way as the Bank of England and at a price fixed on a similar basis.

(D) All bank notes should be payable on demand in rupees, and bank notes of the denomination of Rs. 10,000 should be payable on demand in rupees or in foreign exchange at the option of the presenter, provided that, if payment were demanded in foreign exchange, the Bank might make a charge not greater than the cost of transporting gold to the foreign country on which exchange was demanded. Foreign exchange would be defined as transfers at the par of exchange on London or on prescribed foreign banks in countries outside Great Britain, and the Governor-General in Council should be authorised to prescribe by notification from time to time the foreign banks on which transfers would be issued, subject to the condition that at least one such foreign bank situated in a country having a gold standard currency must be so prescribed.

N.B.—The Bank might be given the option of substituting gold coin for silver rupees.

(E) The Imperial Bank should be under a statutory obligation to give silver rupees or notes on demand in exchange for gold coin.

(F) As in the Bank of England, the note-issue departments and the banking departments of the Imperial Bank should be kept separate and the reserve to be held against the note-issue should be regulated by statute as follows :—

(*a*) The invested portion of the reserve should ordinarily be limited to 50 per cent. of the gross circulation, but the Bank should have the right of increasing the invested portion to 70 per cent. on payment of a tax to Government at the rate of 6 per cent. on any excess over 50 per cent.

(*b*) Of the securities to be held in Reserve, not more than one-half should be rupee securities. These securities might be either Government of India securities or internal bills of exchange having a currency of not more than three months, or other self-liquidating securities, but the amount of the Government of India securities should not exceed 40 crores.

(*c*) The remainder of the securities should be in the form of short-term British or Colonial Government securities, or securities, of the Government of any country in which a foreign bank notified by the Governor-General in Council in accordance with (D) above is situated, or trade bills drawn in India in sterling and having a currency of not more than three months.

(*d*) Of the metallic holding, not more than 50 crores should be in the form of silver rupees, or silver bullion valued at purchase price, the remainder being in the form of gold coin or gold bullion. The metallic reserves should be located entirely in India, except that gold or silver purchased outside India might be held outside India for a period sufficiently long to allow for shipment.

N.B.—As the existing power of the Governor-General to issue Ordinances would remain, the statutory reserve could be varied in exceptionally grave emergencies.

(G) Government should maintain a separate reserve, mainly in gold and sterling securities, to provide against a return of rupees from circulation. The constitution of this reserve, which might be called the Reserve for the redemption of rupees to distinguish it from the Gold Standard Reserve, and the method in which it should be used, are dealt with below [*vide* paragraphs 9 and 10 (2) and (5)].

(H) Silver rupees should ordinarily be given by Government on demand to the Bank in exchange for silver bullion, without seigniorage, on payment to Government by the Bank of the difference between the currency value and the bullion value of the rupees. Government should also undertake to receive back silver rupees from the Bank subject (except in the case of a prolonged continuous return of rupees from circulation), to a charge equivalent to the cost of melting and refining the rupees and to pay the Bank in sterling the exchange value of the rupees so received. Government would obtain the sterling required to pay for rupees so received by drawing on the Reserve for the redemption of silver rupees maintained in accordance with (G) above and would hold the rupees temporarily in this reserve. If the return of rupees from circulation proved temporary and was succeeded by an absorption, leading to a demand by the Bank on Government for rupees, the Bank should take back rupees up to the amount previously presented to Government and pay their exchange value in sterling, before they would have the option of obtaining rupees in exchange for silver bullion. If the return of rupees from circulation went on so long that the number of rupees held in the Reserve for the redemption of silver rupees became unduly large, Government would melt the excess rupees and sell the silver obtained from them in such a way as to obtain sterling to place in the Reserve. The Reserve for the redemption of rupees would bear the loss involved in the difference between the exchange and bullion value of the rupees so melted and sold.

(I) The Bank should undertake to keep the India Office supplied with funds for meeting the sterling charges of Government. (This point is dealt with in more detail in paragraph 16 below.)

8. *Method of providing necessary Reserves.*—The distribution of the present Government reserves between the Bank Reserve against its note-issue and the Reserve for the redemption of rupees could be arranged as follows. The details of the Government reserves as they stood on the 30th September, 1925 (sterling being converted into rupees at 1*s*. 6*d*.), and the constitution of the Bank's reserve, on the assumptions that the metallic percentage would be about 53 and that the Bank would hold the maximum amount of the Government of India securities, no inland

trade bills and no gold securities except sterling securities, and practically the maximum amount of silver, are given below :—

—	Silver.	Gold.	Government of India Securities.	Sterling Securities.
Actual constitution of the reserves.	90·1	29·7	57·1	27 + 53 (G.S.R.)
Constitution of the Bank's reserve.	49·5	50	40	50

It will be seen that the sterling and gold reserves are more than sufficient to provide the necessary sterling and gold reserves required by the Bank, assuming that gold could be readily obtained in exchange for sterling. The Government of India securities are excessive, and it would be necessary to cancel 17 crores of the *ad hoc* Treasury Bills at present held in the Paper Currency Reserve, replacing the remainder by the issue to the Bank of 3½ per cent. paper or some other long term loan, or by the creation of a Book Debt. The silver holding is 40 crores in excess of the amount required, but this excess would have decreased appreciably before the new system could possibly be inaugurated. To avoid throwing a large amount of silver on the market suddenly, it might be provided by law that the condition that the Bank's holding of silver should not exceed 50 crores should not come into force until three years after the inauguration of the system. During this period a portion of the excess would probably be absorbed and the remainder might be sold gradually and gold purchased with the proceeds. Such a provision would have the further advantage that the additional 20·3 crores of gold required would not have to be obtained at once, but would be acquired gradually over a period of three years.

9. After the Bank's reserve had been constituted as above, and assuming an absorption of 21·2 crores of rupees only before the limit of 50 crores to the Bank's holding of silver became effective (this is a low estimate, as the average annual absorption of rupees in the five pre-war years was about nine crores) the reserves left with Government would consist of about 31 crores of sterling plus the amount realised by the sale of the silver contained in 20 crores of rupees. Assuming that an average price of 30 pence per standard ounce were obtained for this silver, its sterling value would be about 12 crores. In effect, therefore, the amount of the sterling reserve left with Government would be 43 crores, *i.e.*, 10 crores less than the amount of the Gold Standard Reserve at present. This would form the nucleus of the Reserve for the redemption of rupees suggested in para. 7 (G). The value of this Reserve might be increased from year to year by crediting to it the profits on the coinage of rupees and the interest on the sterling securities held therein.

10. *Features of the System.*—In the Appendix an attempt is made to show how the system would have worked if it had been in force during the last two years, but it is necessary to emphasise some of the main features of the system :—

(1) *Automatic stabilisation of exchange.*—The effect of the obligations imposed on the Bank to buy gold and to give foreign exchange for notes of the denomination of Rs. 10,000 would be to provide by statute for the maintenance of the exchange value of the rupee within the gold points. In practice, the Imperial Bank would probably buy sterling to an unlimited extent at the upper gold point, unless it wished its gold reserve to be strengthened by the presentation of gold by the public, and it would also sell sterling at about the lower gold point in order to prevent a demand for foreign transfers by the presentation of Rs. 10,000 notes which might be inconvenient. The maintenance of the exchange value of the rupee, however, would not depend on such action.

(2) *Responsibility of the Bank and Government respectively for the maintenance of the exchange value of the rupee.*—The obligation imposed on the Imperial Bank to buy gold on one hand and to give foreign exchange for Rs. 10,000 notes on demand on the other hand, would place on the Imperial Bank the main responsibility for the maintenance of the exchange value of the rupee, and the Paper Currency Reserve proposed has been constituted with this object. Only in one contingency would Government be called in to support the Bank reserves for this purpose, namely, in the

event of a return of rupees from circulation. In such an event, the Imperial Bank could, under paragraph 7 (H), call upon Government to take back silver rupees and to pay for them in sterling. The object of the provision that Government should ordinarily make a charge equivalent to the cost of melting and refining rupees when the Bank made such a demand is to prevent the Bank calling upon Government to coin an unnecessarily large amount of rupees at any time, for instance, during a busy season, and returning the rupees to Government later if the metallic percentage became unduly high. The effect of this charge would be that the Bank would not return silver rupees to Government unless it was compelled to do so by the fact that the amount of silver in the Reserve had reached the limit of 50 crores, and that the Bank would regulate its purchases of silver so as to avoid, if possible, such a contingency. In effect, therefore, the Government Reserve would be brought into play to assist the Bank in maintaining the exchange value of the rupee only in the case of a large return of rupees from circulation.

(3) *Control of the monetary reserves.*—The banking and currency reserves of the country would, as far as is possible under a gold exchange standard, be under the control of one authority, namely, the Imperial Bank of India, with the result that the Bank would be able to control credit effectively in such a way as to prevent undue fluctuations in the bank rate and excessive depletion of their reserves of gold and gold securities. In the Appendix the way in which the system proposed would enable the seasonal demand for currency to be met and would diminish the fluctuations in the bank rate in the course of the year has been indicated.

(4) *Gold currency in circulation.*—The statutory obligation on Government to give gold in exchange for gold bullion would enable gold currency to be obtained to the full extent of the public demand for it. It is a question whether the public demand for gold currency as a medium of exchange would be appreciable as long as the silver rupee is unlimited legal tender, and there would probably be little immediate change in the forms of the currency in circulation unless the policy were deliberately adopted of putting gold coin freely into circulation and making it available to the public at all branches of the Imperial Bank and Treasuries throughout India. If the ultimate aim of the policy adopted were to look forward to the time when with the progress of education and of credit facilities the demand for rupees would get less and less, and notes and cheques would become the only form of currency commonly in use, and if it were considered that a gold currency in circulation would be an expensive luxury which ought not to be encouraged, the amount of gold coin which would be taken from the Mint would probably be small. If, on the other hand, it were held that the ultimate ideal could more quickly be obtained through putting a gold currency freely into circulation to replace silver rupees, the amount of gold coin to be provided might be very considerable. In so far as gold coin replaced silver rupees and silver rupees returned from circulation, the loss involved would be borne by the Reserve for the redemption of rupees.

(5) *Reserve for the redemption of Rupees.*—In paragraph 9 it has been suggested that this reserve should be constituted from the amount of the present Government reserves remaining over after providing the necessary reserve for the Bank's note issue, and that the reserve might be added to in future by crediting to it the interest on the investments held therein and also the profits on any fresh coinage of rupees. The extent to which it would be necessary to increase the amount of this reserve would depend on the policy adopted regarding the use of gold as currency. If it were intended that obligation to give gold coin in exchange for rupees should be undertaken at some time in the future, it would be advisable, in order to attain this object as soon as possible, to increase the amount of this reserve to the full extent possible. It would, therefore, be inadvisable to hold any part of the reserve in gold as the amount of annual accretion from the interest on securities in the reserve would obviously diminish in proportion to the amount of gold held. If the reserve were held in sterling securities only and the interest on the securities and the profit on the coinage of rupees were added to it continuously, it would eventually become strong enough to meet the cost of introducing a gold standard with the rupee as a subsidiary coin of limited legal tender.

(6) *Constitution of the Bank's Reserve.*—The proposed constitution of the Bank's reserve is intended to provide an adequate guarantee of the Bank's ability to carry out its liability to redeem its notes in either rupees or foreign exchange. The amount of silver rupees is limited with the idea of ensuring that future expansion of the currency, which will presumably take place as India develops, should be based entirely on gold. The amount is not more than sufficient to provide for the seasonal demand for silver rupees and to allow a margin of safety. (In the busy season of 1923-24 the absorption of rupees was about 23 crores.) The amount of gold and gold securities appears to be ample to guarantee that the Bank would be able to fulfil its responsibility for the maintenance of the exchange value of the rupee. The provision for allowing the Bank to increase the invested portion of its reserve on payment of a tax to Government, which follows the system in force in the German Reichsbank before the war, is intended to provide for the elasticity of the currency which is required for meeting the seasonal demand for money. The way in which this provision would work is indicated in the Appendix.

(7) *Location of the Bank's reserve.*—In paragraph 7 (*f*) (*d*) it has been suggested that the metallic reserve should be located entirely in India, except that the gold or silver purchased outside India might be held outside India for a period sufficiently long to allow for shipment. It may be said that the proper place for the Bank's reserve of gold is London, where it would probably be required for use in the event of the Bank's reserve of gold securities becoming unduly depleted. There is, however, a strong Indian demand that the metallic reserves should be held in India, and it seems desirable to meet this popular demand as far as possible, especially as the Bank could, if their reserves of gold securities were running low, sell gold in India and thereby decrease the demand on their gold securities or obtain a sterling credit against gold earmarked in India.

(8) *Effect of the scheme on Government revenue.*—Assuming that Government would obtain the same revenue from the Bank in payment for the monopoly of the note-issue as they now obtain from the profits of the Paper Currency Department, the effect of the scheme on Government revenue would depend on the decision regarding the constitution of the Reserve for the redemption of rupees and the use of the interest received on the securities held therein. If it were decided to credit to the Reserve all the interest on the securities held therein, Government would lose the revenue they obtain at present from the securities in the Gold Standard Reserve, namely, about 180 lakhs per annum.

11. *A Gold Standard with an Imperial Bank of India note-issue.*—The arrangements for handing over the control of the note-issue and the Paper Currency Reserve to the Imperial Bank of India would obviously be very different if it were decided to adopt a gold standard for India by stages on the lines suggested in another memorandum. It would be inadvisable to hand over the control of the Paper Currency Reserve to the Bank before the early stages in the introduction of such a scheme had been passed, though it might be advisable to let the Bank supervise the machinery of the note-issue as the agents of Government, in order that they might become acquainted with the working of this machinery before undertaking larger responsibilities. There appears to be no reason, however, why a bank note-issue should not be substituted for a Government note-issue after the liability to give gold coin in exchange for notes and rupees and also for gold bullion on payment of a seigniorage had been imposed by law [*vide* para. 10 (III) of the memorandum on "A Gold Standard for India"]. It would then be possible to make the bank notes convertible into gold only, and though the Bank would have to maintain a certain amount of rupees in their reserve until the silver rupee was made limited legal tender, the permanent constitution of the Reserve could be prescribed by a statute, with a temporary provision for this purpose.

12. Under the system finally reached in which the only forms of unlimited legal tender would be notes and gold coin and the silver rupee would be limited legal tender, many of the difficulties of transferring the management of the note-issue to the Imperial Bank would disappear. The exchange value of the rupee would be kept automatically within the gold points by the movements of gold. In practice, the Imperial Bank would probably buy and sell sterling to prevent

unnecessary shipments of gold, and would influence the rate of exchange by its discount rate, but its responsibility for the maintenance of the exchange value of the rupee would be smaller than under a gold exchange standard. Moreover, as the liability on account of a large number of over-valued silver coin of unlimited legal tender outstanding would have been met, it would be unnecessary for Government to maintain a separate reserve; and as the rupee would be a subsidiary coin of limited legal tender, the complicated arrangements suggested above, for the supply of rupees to the Bank and for the Bank returning them to Government in the event of a return from circulation, would be unnecessary.

13. The following is an outline of a possible scheme :—

(A) Gold coin and bank notes should be unlimited legal tender, and silver rupees should be legal tender for amounts up to Rs. 50 only.

(B) Government should be under a statutory obligation to give gold coin in exchange for gold bullion at any time on payment of a seigniorage to cover minting charges.

(C) The Imperial Bank should be under a statutory obligation to buy gold in the same way as the Bank of England and at a price fixed on a similar basis.

(D) Bank notes should be payable on demand in gold coin.

(E) As in the Bank of England, the note-issue departments and the banking departments of the Imperial Bank should be kept separate and the reserve to be held against the note-issue should be regulated by statute as follows :—

(i) The gold in the Reserve should not ordinarily be less than 30 per cent. of the gross circulation, but might be decreased to 20 per cent. on payment by the Bank of a tax of 6 per cent. on the amount by which the invested portion of the Reserve exceeded 70 per cent.

(ii) Of the invested portion of the Reserve at least 20 per cent. should be gold securities or trade bills drawn in India in sterling having a currency of not more than three months.

(iii) The remainder of the invested portion of the Reserve should be Government of India rupee securities, or internal trade bills, or other self-liquidating securities, provided that the amount of Government of India rupee securities should be limited to 90 crores.

(F) The Bank should undertake to keep the India Office supplied with funds to meet the sterling charges of Government.

A detailed examination of the possible working of such a scheme seems unnecessary at this juncture.

14. It is now necessary to consider a number of important questions, the decision regarding which would not be appreciably affected by the currency and exchange system adopted and which have been referred to only incidentally, if at all, in the above outlines of possible schemes, viz. :—

(1) The arrangements for the distribution of notes and coin throughout India and the provision of exchange facilities at places other than Currency Offices.

(2) The method by which the Government remittances to London would be effected.

(3) The restrictions to be placed on the exchange operations of the Imperial Bank.

(4) The arrangements by which Government would obtain from the Imperial Bank payment for the monopoly of the note issue.

15. *Arrangements for the distribution of notes and coin and the provision of exchange facilities.*—At present the arrangements for the distribution of notes and coin throughout India are entirely in the hands of Government. In their Agreement with the Imperial Bank, Government have undertaken to supply, free of cost, notes and coin to the branches of the Imperial Bank which conduct Government treasury business and in order to provide for Government payments at treasuries and sub-treasuries, and also to provide exchange facilities at treasuries, Government keep all treasuries and sub-treasuries supplied with coin as required At all branches of the Imperial Bank, all treasuries, and most of the sub-treasuries, Government keep currency chests in which notes, silver rupees,

half-rupees (and gold, if any), are stored except in so far as they are required to provide for the ordinary daily transactions. The notes held in currency chests are treated as not issued, and the amount of the notes so held is, therefore, excluded from the figures shown in the weekly Paper Currency Statement. The coin held in such chests is treated as part of the reserve against the notes in circulation. By the aid of these currency chests Government are able not only to make transfers of money quickly from one place to another through the currency, but also to save expenditure in transporting coin and notes from place to place. The Imperial Bank also, which is allowed with certain restrictions to draw on the currency chests maintained at its branches, is able to work branches with much lower cash balances than would be required if there were no store of money which could be drawn upon without delay. Obviously this system would have to be modified considerably if the Imperial Bank managed the note-issue, and the natural development seems to be for the Imperial Bank to take over a large part of the work of distributing coin and notes which is at present performed by Government. The arrangements suggested are briefly as follows :—

(*a*) Gold coin would be obtained by the Bank in the same way as by the public, namely, by presenting gold bullion at the Bombay Mint. As long as the silver rupee were full legal tender currency, the Bank would obtain rupees in accordance with the arrangements suggested in paragraph 7 (H) above.

(*b*) Government should supply subsidiary coin to the Bank only at the Mints at Calcutta and Bombay, and should receive it back again at its face value at the request of the Bank.

(*c*) The Imperial Bank should be responsible for the distribution of all notes and coin throughout India. It should undertake, as it does now, to give free exchanges at all branches, and should be responsible for supplying the currency demanded by the public.

(*d*) Government should bear the cost of keeping treasuries and sub-treasuries where there is no branch of the Bank supplied with currency both for exchange purposes and for Government payments.

(*e*) In order to retain the advantages of the present currency chest system, Government might, as agents of the Bank, maintain currency chests at treasuries and sub-treasuries where there is no branch of the Bank. A portion of the Bank's bullion reserves might also be kept at the Mints.

16. *Government remittances to London.*—The working of the schemes outlined above is to a certain extent independent of the method by which the Government remittances to meet sterling requirements might be made. It would be possible for the present procedure by the sale of Councils and the purchase of sterling to continue, but as the Imperial Bank would be mainly responsible for the control of exchange, it is obviously desirable that the management of the Government remittances should be largely in their hands. The simplest method of providing for the Government remittances appears for the Imperial Bank to undertake the obligations to keep the India Office supplied with funds. If the sterling expenditure of Government were met entirely by remittances from India, there would be no room for misunderstanding in such an arrangement; but as Government have in the past met, and may again in the future meet, a part of their sterling expenditure by borrowing in London, and have a large amount of sterling debt outstanding, it would be necessary to lay down some principles by which the demands of Government on the Bank would be regulated. It is suggested that the principles should be that Government would never borrow in London merely in order to lessen their demands on the Bank, but would expect the Bank to supply funds to meet all their normal revenue and capital expenditure in London, if required. If at any time the question should arise of the repayment of any of the sterling debt without fresh sterling borrowing, Government should give the Bank ample notice and arrange to draw on the Bank gradually for this purpose. The India Office would have to give the Bank some time before the beginning of each year an estimate of their probable requirements during the year, which would be only an approximation. It would have to be supplemented by a definite demand for each month made some time before the beginning of the month, the amount of which the India Office would not be able to alter except with the consent of the Bank. The amounts drawn by the India Office would be paid in rupees to the Bank in India by Government, the rate of exchange being the par

of exchange, the market rate on the day of payment or the average of the market rates for the preceding month. Of these three alternatives the last appears to be the best as the rate paid by Government would correspond roughly to the rate at which the Bank would have remitted.

17. *Restrictions to be placed on the exchange operations of the Imperial Bank of India.*—The exchange business which the Imperial Bank is at present authorised to transact is shown in items (*d*), (*m*) and (*n*), Part I, Schedule I, Imperial Bank of India Act. They are as follows :—

"(*d*) The drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities payable in India, or in Ceylon; and, subject to the general or special directions of the Governor-General in Council, the discounting, buying and selling of bills of exchange, payable outside India, for and from or to such banks as the Governor-General in Council may approve in that behalf;

(*m*) The drawing of bills of exchange and the granting of letters of credit payable out of India, for the use of principals for the purpose of the remittances mentioned in clause (1) (sale of securities, etc.) and also for private constituents for *bona fide* personal needs;

(*n*) The buying, for the purpose of meeting such bills or letters of credit, of bills of exchange payable out of India, at any usance not exceeding six months."

The first sentence of item (*d*) was intended to apply to internal bills of exchange only, but as it reads there appears to be no reason why the London office of the Bank should not undertake unlimited exchange business. In practice, the London office of the Bank does not do so, and, practically speaking, the exchange business of the Bank is limited to the purchase of sterling in India from banks on an approved list which has been drawn up by Government for the purpose of remittances for the Bank's private constituents. In addition, the Imperial Bank has in recent years been purchasing large amounts of sterling from banks and certain firms on another approved list on behalf of Government. If the Imperial Bank takes over the control of the note-issue and the Currency Reserve, which would carry with it responsibility for the maintenance of the exchange value of the rupee, and also takes over the responsibility for supplying the India Office with funds to meet the sterling requirements of Government, it is desirable that the Bank should be free to carry out its exchange operations in the most satisfactory and economical way, but it is undesirable that the Bank, with all its special resources, should enter into competition with the Exchange Banks. It is suggested that the Imperial Bank might be given the necessary freedom without interfering with the business of the Exchange Banks by the limitation of its exchange business to the following :—

(*a*) The Imperial Bank should be allowed to buy and sell sterling in India freely, but such purchases or sales should be made not direct with the trading public, but only with banks (and possibly a few firms which have hitherto been in the habit of tendering direct for Council bills) on a list to be approved by Government. It might also be laid down that the Bank should not buy or sell less than £10,000 at a time.

(*b*) The Imperial Bank should be allowed to rediscount in India sterling trade bills for other banks, and the London office should be allowed to rediscount such bills at the Bank of England only.

(*c*) The exchange business of the London office of the Bank should be limited strictly to the issue of bills of exchange on India for private constituents for *bonâ fide* personal needs.

Such restrictions would involve very little extension of the Imperial Bank's exchange operations, the only points in which their operations would differ from those carried on at present being—

(*i*) that the Imperial Bank would purchase sterling on their own behalf instead of as agents of Government;

(*ii*) that the Imperial Bank would be authorised to sell sterling in the same way as they are now purchasing sterling on behalf of Government. This provision is necessary in order to enable the Bank to carry out its obligations to maintain the exchange value of the rupee under a gold exchange standard or to protect its gold reserve under a gold standard. There is no reason to apprehend that the business of the Exchange Banks would suffer in any way from such operations.

(*iii*) that the present provision of the Act referred to above, which, in effect, permits the London Office of the Imperial Bank to conduct unlimited exchange business, would be modified so as to carry out the original intention.

18. *Payment by the Imperial Bank of India for the Monopoly of the Note-Issue.*—It is assumed that the payment to be made by the Bank for the monopoly of the note-issue should be approximately the profit which Government would obtain if they retained the management in their own hands, as the incidental advantages to the Bank of controlling the note-issue would be very cosiderable, and there is no reason why Government should lose revenue on account of the transfer of the management. The possible methods by which Government might obtain payment from the Bank are as follows :—

(1) Government might take a share in the profits of the Bank.

(2) A separate profit and loss account might be kept for the note-issue department of the Bank, and Government might take annually all, or nearly all, of the profits shown therein.

(3) The Bank might pay Government a percentage on the amount of the invested portion of its Currency Reserve over and above a fixed figure which would be free, and excluding any amount on which 6 per cent. would be paid in accordance with the suggestions made in paragraphs 7 (F) (*a*) and 12 (E) (*i*).

The adoption of the first method would in effect make Government a shareholder in the Bank, and would, to some extent, at any rate, involve closer Government control. It seems desirable that the arrangement between Government and the Bank should be such as to enable Government control to be reduced to the minimum necessary for guarding the financial interests of the country, and to leave the day-to-day management of the Bank free to be conducted in accordance with commercial requirements. Method (2) would necessitate a very close examination and audit of the accounts of the Bank by Government officials, and it would be extremely difficult to distinguish, especially at the branches of the Bank, the items which ought to be placed in the accounts of the banking department and the items which ought to be placed in the accounts of the note-issue department. Moreover, there would be an opening for frequent discussions between Government and the Bank as to comparatively petty details. The adoption of method (2), therefore, does not seem expedient. Method (3) appears to be the most suitable. The amount of the notes issued against investments, which would be free, would be fixed roughly so that the interest on the investments would approximately cover permanent overhead charges which would not vary appreciably with the size of the note-issue. As the percentage of the amount of the remainder of the invested portion of its Reserve which the Bank would have to pay would depend on the interest rates obtaining in India and in London from time to time, it would not be possible to fix a definite rate in perpetuity, but it would be possible to fix a percentage for a period of, say, five years, which would be fair both to Government and to the Bank. The real profits obtained by Government from the note issue during recent years are dealt with in another memorandum

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APPENDIX.

In order to give a rough idea of the working of the system outlined in paragraph 7 of the memorandum, Statement A has been drawn up giving the probable amount of the note issue and the constitution of the Reserve, if the system had been in force between the end of October, 1923, and the end of September, 1925. The end of October, 1923, has been chosen as the starting point, partly because at that time the currency was certainly no longer inflated and partly because it is the time of the year when the expansion of currency to meet the seasonal trade demand usually begins. Naturally most of the figures in the statement are hypothetical.

2. In the *second column* of the statement is shown the gross circulation as it actually existed, and in the *third column* the circulation as it would have existed if the Imperial Bank had controlled the note issue and had so regulated

its reserves that the percentage in the banking department did not go above 25 per cent. or below 20 per cent. The figures in the third column have been obtained as follows :—

(*a*) In months when the Bank's actual percentage was above 25 per cent., it has been assumed that the Bank would have cancelled notes to the extent necessary to bring their percentage down to 25, e.g., at the end of October, 1923, their cash, liabilities and percentage were approximately 36 crores, 93 crores, and 39. To bring the percentage down to 25 a decrease of approximately 13 crores in the cash would have been necessary. A deduction of 13 crores from the gross circulation has therefore been made.

(*b*) When the Bank's actual percentage was between 20 and 25, no change has been made in the figures of gross circulation.

(*c*) In months when the Bank's actual percentage was below 20, it has been assumed that the Bank would have increased the note issue by the amount necessary to bring its percentage to 20, e.g., at the end of February, 1924, the cash, liabilities and percentage were approximately 15 crores, 106 crores and 14. To bring the percentage up to 20, an increase of about 6 crores in the cash would have been necessary. An addition of 6 crores to the gross circulation has, therefore, been made.

It will be noticed that during the busy season of 1924, the assumed circulation is considerably higher than the actual gross circulation. The increase in circulation assumed would probably have been sufficient to prevent the extreme stringency of money which actually occurred.

3. The silver holding has been divided into two portions in order to indicate what purchases of silver the Bank would probably have made in the course of the period taken. It is assumed that it would have started off at the end of October, 1923, with the maximum holding of silver, namely, 50 crores, because past experience would have shown that the absorption of silver would start on a considerable scale from the beginning of November. *Column* 4, which is headed "Original holding," gives the state of the silver reserve from month to month on the assumption that the absorption of silver would have been on the same scale as it actually was, and that the Bank made no fresh purchases. *Column* 5 gives the "Fresh purchases" which the Bank would have made as a matter of policy. In November, the Bank, knowing that the demand for rupees to finance large and high-priced crops would be heavy, and, seeing rupees being absorbed at a rapid rate, would have taken measure to increase the metallic holding in order to strengthen its position. It would probably not have purchased too rapidly at first, as a return of a portion of the rupees at the end of the busy season would have been anticipated, but purchases of small amounts of silver from month to month would have been quite safe. It is assumed, therefore, that from November to March the Bank would have purchased a crore of silver per month. By the end of March when it was seen that there had been an absorption of nearly 20 crores of rupees, and that rupees were still going out in considerable quantities, the purchases of silver would probably have been accelerated, especially as the metallic percentage was still low. It is assumed, therefore, that in April 2 crores and in May 3 crores of silver would have been purchased. In June rupees started to return from circulation. Seeing this the Bank would probably have stopped purchasing on account of the possibility that a large return of rupees might have brought the silver holding up to the limit. Between June and October rupees did actually return fairly freely, though not as rapidly as in some years, and by the end of October the Bank's holding of silver would have been 46·5 crores, i.e., only 3½ crores below the limit. In the busy season of 1924-25 the absorption of rupees was much less rapid than in the previous year. It is assumed, therefore, that the Bank would not have made fresh purchases in anticipation of a comparatively small absorption during the busy season, and a large return from circulation in the slack season. It will be seen that by the end of September, 1925, their holding of silver would have reached the limit of 50 crores without any purchases.

4. *Column* 6 shows the gold holding. The figure of 40 crores taken for the end of October, 1923, is the amount that would have been necessary to bring the metallic percentage of the Bank to a figure well over the 50 per cent. limit. It may be considered that the figure taken, namely, 53·9, is unduly low, but in fixing 50 per cent. it is assumed that the Bank would work down below this percentage

every year and in the slack season would, in order to save payment to Government on an excessive issue of notes against securities arrange, as far as possible, that their percentage would only be so much above 50 per cent. as would be necessary to ensure that a sudden demand would not render it liable to pay the 6 per cent. tax at a time when money would not be lent at a corresponding rate. In this column a gradual increase in the amount of the gold holding between the end of October and the end of May is shown. It is assumed that this increase in the gold holding would have taken place automatically on account of the presentation of gold bullion by the public. In 1911-12 and 1912-13 about 14 crores and 10 crores respectively of gold were actually tendered to Government out of the large imports in those years. It is reasonable to assume, therefore, that under the system proposed a fair amount of gold would be tendered to the Bank. It is assumed that there would have been no tenders in the months of May, 1924, to September, 1925, because it is unlikely that gold would be tendered by the public in any considerable quantity during the slack season, and during the busy season of 1924-25 the demand for gold up-country for industrial and other purposes unconnected with currency was so extraordinarily large that it is improbable that any appreciable amount would have been received by the Bank.

5. *Column* 7 gives the holding of the Government of India securities. The figure of 27 taken for October, 1923, is probably lower than the actual holding would have been and requires some explanation. From Columns 2 and 3 it will be seen that, in order to reduce the percentage in the banking department to 25 from the figure at which it actually stood on that date, it would have been necessary to cancel 13 crores of notes and reduce the Bank's cash by this amount. Assuming that the Bank's liabilities were the same, it would have been necessary for the Bank to have obtained other assets of an equivalent amount. It is assumed for the sake of simplicity that they would have obtained these assets by transferring 13 crores of Government of India securities from their note issue department to their banking department. In practice they would probably not have reduced their holding of the Government of India securities in the note issue department to so low a figure, but if they had not done so the only other option available would have been to lend out their money on the London market, as it may be assumed that they had lent as much money in India as they could place. If, therefore, the Government of India securities were taken at a higher figure than 27, the difference between 27 and the figure taken would have been held in sterling securities in the banking department. For the purpose of examining the working of the proposed system, it is simpler to assume that the decrease in the Bank's percentage of cash to liabilities would have been effected solely by a transfer of Government of India securities from the note issue department to the banking department, as this gives a more accurate idea of the amount of remittance which the Bank would have had to make from India to London in order to provide for expansion of the currency.

6. *Column* 8 shows the amount of hundis or other self-liquidating rupee securities. It will be noticed that the largest amount is 14 crores, and it may be said that in present conditions it will be impossible for the Bank to find this amount of genuine internal bills of exchange or other suitable self-liquidating securities. The reply to this objection is that it will be impossible to meet the seasonal demands for currency without making money unduly tight, unless there is provision in the currency system for a considerable expansion against self-liquidating rupee securities. It may be possible to frame the law so that the Bank would be able to place in the reserves promissory notes or other documents representing trade credits as well as hundis. If not, it would certainly be the business of the Bank to encourage traders to finance themselves by hundis rather than by cash credits, and it might be advisable for Government to assist the Bank by abolishing or reducing the stamp duty on hundis.

7. *Column* 9 shows the gold securities. The figures in this column have been arrived at by subtracting the total of Columns 4 to 8 from the total circulation shown in Column 3. They indicate, therefore, the amount of the remittances which the Bank would have had to make in the course of the year for strengthening their sterling reserve in addition to remittances for the purchase of silver and to meet the sterling requirements of Government. Taking the Government's sterling expenditure for the year at 34 millions, and assuming that the Bank would have purchased all its silver in London, the total remittances on Government and Bank account between the end of March, 1924, and the end of March, 1925, if the rate of exchange had been 1*s.* 6*d.*, would have been £40·5 millions. A comparison of this figure with the amount of remittances actually made by

Government during this period is not of much value partly because the rate of exchange was fluctuating and Government during the first six months was regulating its remittances so as to allow the rate to rise gradually, and partly because there were actually no tenders of gold to Government. The actual remittances, however, were £40·8 millions. The average annual remittances for the five years 1909-10 to 1913-14 were £27·6 millions, while the average visible balance of trade for these years was 42·2 crores. Considering that the visible balance of trade from 1st April, 1924, to 31st March, 1925, was about 61 crores, it seems likely that the Bank would have had no difficulty in making the amount of remittance required for meeting the sterling requirements of Government and for currency purposes.

8. The figures in Columns 10 and 11 give an indication of the way in which the seasonal demand for currency could be met without unduly tightening money. At the end of November, 1923, with a metallic percentage of 50·2 and a percentage of cash to liabilities of 25, the Bank would probably have taken steps to lessen the drain on its reserves and to put itself in a position to increase its note issue against securities, i.e., it would have raised the bank rate to 6 per cent. By the end of January, 1924, its percentage would have been getting near the limit of safety and it would probably have raised the bank rate to 7 per cent. By the end of March the demand for money and currency would have shown signs of falling off and the bank rate would probably have been reduced to 6 per cent. early in April. A further reduction to 5 per cent. would probably have been made about the middle of June, and this rate would have continued till about the middle of December when a rise to 6 per cent. would have been necessary. It would have been unnecessary to raise the bank rate beyond 6 per cent. during the busy season of 1924-25, and this rate would probably have continued until about the middle of June when it would have been possible to make a reduction to 5 per cent. A comparison of these movements in the bank rate with those which actually took place indicates that the character of the seasons would have been clearly reflected in the movement of money rates without producing the extreme fluctuations which are unanimously condemned.

9. The statement as a whole enables a rough test to be made of the adequacy of the reserve proposed to provide for all contingencies without involving an unnecessarily large metallic holding. The figures indicate that during a season of large crops and large exports the metallic percentage might drop to about 40, on account of the ordinary seasonal demand for currency. This appears to leave a sufficient but not excessive margin for emergencies in view of the fact that if the Bank ever worked near 30 per cent. the encashment of a few notes would put it in danger of having to apply to Government for the suspension of the law. Another contingency is the possibility of a large demand for remittance to England. This would probably arise in the slack season when it would probably be possible to meet it from the excess of the gold securities over the rupee securities. If such a demand suddenly arose in the busy season, it might be necessary to use a part of the gold reserve either by actual export or by obtaining a credit against it in London. Anyway with a reserve of gold and gold securities in excess of half the note issue, there seems to be little possibility of the system breaking down on account of a demand for remittance to England, and as a last resort the Bank could obtain a temporary credit in London.

STATEMENT A.

(Figures in crores of rupees.)

End of	Gross Circulation.	Circulation assuming that the currency had been regulated so that maximum and minimum percentages of Bank were 25 and 20 respectively.	Reserve.						Metallic Percentage.	Percentage of cash to liabilities in Banking Department.
			Silver.		Gold.	Rupee Securities.		Gold Securities.		
			Original Holding.	Fresh Purchases.		Government of India Securities.	Hundis or other self-liquidating Securities.			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
October, 1923	180	167	50	...	40	27	...	50	53·9	25
November, 1923	178	176	46·4	1	41	36	...	51·6	50·2	25
December, 1923	183	185	37·5	2	43	40	10	52·5	44·6	20
January, 1924	184	187	33	3	45	40	11	55	43·3	20
February, 1924	186	192	31·2	4	46	40	14	56·8	42·3	20
March, 1924	186	190	30·7	5	47	40	12	55·3	43·5	20
April, 1924	181	186	28	7	48	40	10	53	44·6	20
May, 1924	175	177	27·1	10	49	40	2	48·9	48·6	20
June, 1924	172	172	29	10	49	37	...	47	51·2	22
July, 1924	176	171	32·7	10	49	35	...	44·3	53·6	25
August, 1924...	178	174	34·4	10	49	37	...	43·6	53·7	25
September, 1924	179	176	35·5	10	49	38	...	43·5	53·7	25
October, 1924	181	181	36·5	10	49	40	...	45·5	52·8	23·8
November, 1924	180	180	34·5	10	49	40	...	46·5	51·9	25
December, 1924	179	179	30·5	10	49	40	1	48·5	50·0	20·6
January, 1925	181	181	27·5	10	49	40	4	50·5	47·8	20
February, 1925	184	187	25·9	10	49	40	10	52·1	45·4	20
March, 1925	184	186	26·4	10	49	40	8	52·6	45·9	20
April, 1925	180	180	23·8	10	49	40	6	51·2	46·0	20
May, 1925	173	173	23·5	10	49	40	4	46·5	47·7	21·7
June, 1925	178	169	28·5	10	49	38	...	43·5	51·8	25
July, 1925	184	164	34·6	10	49	34	...	36·4	57·1	25
August, 1925...	188	170	38·7	10	49	35	...	37·3	57·5	25
September, 1925	189	179	40	10	49	39	...	41	55·3	25

APPENDIX 7.

Memorandum on the Indian Currency System submitted by the Honourable Sir Basil Blackett, K.C.B., Finance Member of the Governor-General's Executive Council.

1. The Currency of India, as of almost every other country in the world, was driven away from its moorings by the War, and, as in the case of the United Kingdom till last April, it now consists of an inconvertible medium of circulation (the note convertible into the rupee and the rupee in essence an inconvertible note printed on silver) whose value both for internal and for external purposes has depended on the supply in relation to the demand, that is, has been the resultant of the three factors of world prices, internal trade conditions, and the Government's policy in controlling the available supply. Of these three factors, the last has on the whole been the least important, though its importance has been continually increasing as conditions have become more normal and demand has overtaken supply.

2. For these reasons the experience of the last few years has been to some extent abnormal. It contains very useful lessons for application to the future, but it is important to keep the abnormality in mind in any criticism of Indian Currency policy either before the War or since 1920.

3. There appear to me to be three main alternatives for consideration in deciding what the future currency system and practice of India should be. The first is to go back definitely to the system as it was in essence in July, 1914, i.e., a Sterling Exchange Standard, while attempting to clarify the facts as to what that situation really was, to simplify the system, and to bring theory and practice fully into accord. The second is to adopt a real Gold Exchange Standard system on the general lines sketched out in the first part of the memorandum on "The transfer of the management of the paper currency to the Imperial Bank". The third alternative is to adopt a system on the lines of that proposed in the memorandum entitled "A Gold Standard for India". The three alternatives may therefore be shortly described as a Sterling Exchange Standard, a Gold Exchange Standard, and a Gold Standard. Whichever of the three systems is adopted, it is in my opinion possible in each case to transfer the right of note issue and the management of the paper currency to the Imperial Bank, and on many grounds, some of which will appear hereafter, I regard this as desirable in any case.

4. Of the three alternatives the Sterling Exchange standard is considerably the most economical from the standpoint of General Revenues, and the Gold Standard the most expensive. The Gold Exchange Standard is not much less expensive, and may even be more expensive, if, as assumed in the memorandum quoted, it is combined with a gold currency in circulation side by side with the silver rupee, and there is, I think, very little to be said for this alternative unless it is regarded as a stepping stone to a Gold Standard system. It can hardly be regarded as a final solution, since it has to my mind few advantages not possessed by the Sterling Exchange Standard, and does not offer any prospect of getting rid of the unlimited legal tender character of the silver rupee, which is the real stumbling-block in the way of an ideal system. The Gold Standard system is expensive, and if it involves a large amount of gold in circulation, is not ideal. But this is the only alternative which points the way to an ideal solution. The expense of this alternative can, I think, be justified, if it is likely to lead on fairly quickly to what I regard as the ideal system, an International Exchange Standard on the lines laid down by the Genoa Conference of 1922, a system such as England now has with a paper currency inconvertible for internal purposes but absolutely convertible into international currency on a gold basis for external purposes, or a system such as that of the United States of America has in practice become, where the paper currency is nominally convertible into gold coin but for practical purposes gold coin does not circulate internally to any important extent, the stability of the currency both for internal purposes and for external purposes being secured under such a system by the holding in the reserve of a considerable amount of gold and external gold securities, managed by a Central Bank in close collaboration with the Central Banks of other gold standard countries.

I.—The Sterling Exchange Standard.

5. It is, I think, possible to give India a very much improved Sterling Exchange Standard system as compared with that actually in operation in 1914,

containing most of the advantages offered by the other alternatives, subject, however, to two postulates: viz., (*a*) that in the absence of some overwhelming cataclysm such as overtook the world in 1914, the price of silver bullion is not likely to go above 48*d*. per oz. (I assume for convenience throughout this memorandum that the rupee will be fixed at 18*d*.), and (*b*) that sterling, having recovered its parity with gold, will remain the equivalent of gold in all but the most abnormal circumstances. It may well be argued that any probable contingency which would upset either or both of these postulates would upset the equilibrium of any Indian currency system that might be adopted. The fact remains, however, that so long as the silver rupee retains its unlimited legal tender privileges and the difficulties of recoining it with a smaller silver content, unless and until some other metallic coin is substituted, remain insuperable, a rise of the value of silver above 48*d*. will smash any but a Gold Standard system in India.

6. Accepting for the moment these two postulates, the improved system which I would suggest would be on the following lines:—

(*a*) There would be no obligation to buy or sell gold for rupees and there would be no need to go to the heavy expense of keeping gold in the currency reserves, unless (which I assume would not be the case) India were required to keep some small reserve in gold as a condition of dependence on sterling, that is, of reliance upon the action of the currency authorities of Great Britain to maintain sterling at par with gold.

(*b*) The right of note issue and the duty of managing the paper currency would be transferred to the Imperial Bank of India.

(*c*) The Gold Standard Reserve and the Paper Currency Reserve would be amalgamated and reconstituted by statute as a single currency reserve.

(*d*) The Imperial Bank will be required by statute to sell rupees for sterling without limit at 1*s*. 6$\frac{3}{16}$*d*. and sell sterling for rupees at 1*s*. 5$\frac{13}{16}$*d*.

7. One of the great objections to the Indian Currency system as operated in 1914 was that it was extraordinarily complicated and not easily intelligible even to the expert, and, so far as the Gold Standard Reserve was concerned, there was not only no statutory enactment defining its constitution, purposes or uses, but there was not even any recognised body of doctrine on these points. It seems to me that it is essential, if the old system is to be retained, (1) to recognise and state clearly that it is a Sterling Exchange Standard system, (2) to get rid of the cumbrous duplication of reserves, and (3) to realise that in essence the problems raised by the existence of the silver rupee with unlimited legal tender character are rather those associated with a note issue than those associated with a metallic currency, and to approach these problems from the standpoint that the silver rupee is essentially a note printed on silver rather than a token coin.

8. The original function of the Paper Currency Reserve was to provide for the convertibility of the paper currency into rupees. By 1914 this function had been supplemented by the secondary one of maintaining the exchange value of the note at par with sterling.

The function of the Gold Standard Reserve was to maintain the exchange value of the silver rupee at par with sterling.

The silver rupee carried within itself a large portion of its cover in the form of silver bullion, but this cover is constantly varying in value and is not in an easily or quickly realisable form. The balance of the value of the rupee depended on the willingness of the Government to give sterling for it at par when it was redundant to the circulation, and this was the function of the Gold Standard Reserve. If a single currency reserve is to replace the two existing reserves, this new reserve must provide (*a*) for the convertibility of the paper note into silver rupees, and (*b*) for the maintenance of the exchange value both of the note printed on paper and of the note printed on silver.

9. The total amount of silver rupees now in circulation (including the silver rupees in the reserve) is unknown and unascertainable, but it certainly does not exceed 400 crores. A considerable number of rupees must always remain in circulation, since the silver rupee performs the functions of a subsidiary coin such as the shilling and half-crown in England as well as the functions of an inconvertible note of unlimited legal tender. To the extent of from 60 per cent. to 75 per cent. according to the price of silver, the rupee carries its own cover in the form of silver bullion. It will not be necessary therefore in the new currency reserve to provide cover for the whole of the outstanding silver rupees, nor will

it be necessary to provide special cover for the whole of the nominal value of each rupee.

Any proposal as to the amount of cover required must be arbitrary. My suggestion is that the new currency reserve should contain (*a*) full cover for all outstanding paper notes, (*b*) an additional 50 crores to cover rupees now in circulation, (*c*) further cover to the extent of 25 per cent. for all additional silver rupees hereafter coined and issued (exception being made for new rupees coined to replace worn coins withdrawn), i.e., 1 rupee of cover for every 4 rupees added to the circulation. If rupees were withdrawn from circulation and melted down as redundant one rupee of cover would be released for every four rupees melted down.

10. Taking the figures of September 30th, 1925, the amount of paper currency then outstanding was 189½ crores. The new currency reserve would therefore at that date have required to contain assets of the value of 239½ crores. How should this reserve be constituted?

11. It must in the first place contain some silver rupees to provide for the convertibility of the paper note into rupees. But the amount of such rupees should be reasonably limited if the reserve is to be strong enough to perform its other functions. My suggestion would be that normally the silver rupees in the reserve should not be allowed to exceed 50 crores and that it should be laid down that in no circumstances should the rupees so held exceed one-third of the total liabilities. There would seem to be no need to prescribe a minimum for the rupees to be held, as the Bank would be bound by statute to give rupees for notes and would see to it that it was not caught short. Equally the Bank would have to guard itself against the risks of rupees becoming so redundant as to exceed the maximum of one-third of the assets of the reserve. The amount of rupee securities might be limited to a maximum of 80 crores or 40 per cent. of the liabilities, whichever is less, and it might further be laid down that of the rupee securities not more than 60 crores should be Government of India securities and the balance but not more than 20 crores should be held in the form of self-liquidating short-term rupee securities. The remainder of the currency reserve would be held in the form of sterling securities, the exact forms to be defined but not limited to British Government securities.

12. The assets of the two reserves as at 30th September, 1925, consisted of :—

Silver	90·1
Gold	29·7
Government of India rupee securities	57·1
Sterling securities	80
Total	256·9
Being a surplus of	67·4
Over the amount of currency notes outstanding which was	189·5

An extra 50 crores of assets are required to balance the liabilities of the new currency reserve as suggested by me. The surplus in the existing reserves is sufficient to provide this extra 50 crores and still leave a free balance of about 18 crores.

13. It would be tempting to apply this 18 crores to reduction of India's sterling debt, but in order to start the new scheme with an extra margin of safety, I would suggest that it should be used temporarily to relieve the new currency reserve of some of the surplus rupees. It might, for example, be arranged that the Government of India would take over 18 crores of these surplus silver rupees. The Government would then either hold the rupees in stock pending such time as a demand arose for new coinage, or hold a part in stock and sell a part as bullion. The question whether it would be better to hold or to sell need not be examined here.

14. Supposing this exchange to be arranged, the new currency reserve would start its career as follows, it being further assumed that the 29·7 crores of gold would be converted into sterling securities :—

Liabilities—	*Crores.*
Notes in circulation	189·5
Special rupee liability	50
	239·5

Assets—

Silver	72·7
Government of India rupee securities	57·1
Sterling securities	109·7
	239·5

It would be desirable to lay it down as a further temporary rule for guidance of the Imperial Bank that until the silver rupees in the reserve fell below 50 crores, additions to the invested portion of the reserve should not take the form of rupee securities. After that the Bank might increase the rupee securities at its discretion within the proposed statutory limits. For simplicity's sake it might be desirable to convert the Government of India rupee securities into a non-interest bearing book-debt.

15. It seems to me that a scheme of this kind would go far, subject to the postulates mentioned above, to give India a sound currency system, reasonably secure against all but abnormal shocks, reasonably intelligible even to the uninitiated, and managed with the minimum of Government control or interference on business lines by the Imperial Bank acting as the Central or State Bank of India. The plan has the advantage of amalgamating the banking and currency reserves of India and eliminating all Government intervention in the sphere of currency and exchange regulation. The Bank ought, I think, to be able and willing to undertake all the obligations proposed to be imposed on it. Arrangements would have to be made on the lines proposed in the memorandum regarding Transfer of Management of the Paper Currency to the Imperial Bank for the supply of the funds required by the Government of India in London and for the annual payment by the Bank of a suitable sum in respect of the profits of note issue. The only functions remaining to the Government beyond general control would be those of issuing new rupees in exchange for worn coin, and issuing additional rupees to the Bank as required. New rupees would be given in exchange for worn coin at face value without other conditions. Additional rupees would be issued by the Government to the Bank at face value, the Government taking the seignorage, but it would be further provided that out of such seignorage, or if this were insufficient out of revenue balances, the Government should pay to the Bank to be credited to the currency reserve one rupee for every four additional rupees so issued. This latter condition would apply only when the time came for additional coinage, and need not apply to additional rupees issued out of the special stock of 18 crores of silver rupees in the hands of the Government at the start of the new system.

16. One great attraction of this plan is that it not only involves no additional expenditure from general revenues, but, on the contrary, gives the Government (*a*) the prospect of being able to secure a special fund amounting at a maximum to 18 crores for much needed capital expenditure as and when the special stock of 18 crores of silver rupees is liquidated; (*b*) an extra sum for credit to annual revenues equal to the interest on 29·7 crores of sterling securities resulting from the sale of that amount of idle gold; and (*c*) the prospect, as silver rupees go out into circulation, of receiving in aid of general revenues the interest on further investments, either sterling or rupee, on account of the reserve, amounting to some 30 to 50 crores.

The extra annual revenue arising under (*b*) and (*c*) may be roughly taken at not less than two crores, and even if, for any reason, it were found necessary or desirable to hold as much as 30 crores in gold, the economies mentioned under heads (*a*) and (*c*) above would still remain.

II.—The Gold Exchange Standard.

17. A scheme for a Gold Exchange Standard is fully set out in the memorandum regarding Transfer of the Management of the Paper Currency to the Imperial Bank of India. I need not add anything to that memorandum except to say that it would, I think, be possible to avoid the necessity for the special reserve for the redemption of rupees by adopting a plan similar to that suggested above in the case of the Sterling Exchange Standard for amalgamating the two reserves into a single currency reserve. I have already expressed the view that there are few advantages in this system over the Sterling Exchange Standard, unless it is definitely advocated as a stepping stone to the Gold Standard system. I am of opinion that the time has come when a final choice might well be made between

the Sterling Exchange Standard and the Gold Standard, and, if the choice is in favour of the latter, I should prefer to advance to it at once, and believe that it can be introduced without further hesitation, if a reasonable transition period is allowed, and if India is prepared to face the extra cost involved.

III.—The Gold Standard.

18. My personal view is that the cost involved in an immediate advance to the Gold Standard is worth incurring on two conditions. The first is that the extent of that cost is fully realised in advance and the decision that it is worth facing is arrived at with reasonable unanimity by the Government and people of India, and the Government are not put in the position of appearing to force India to incur the charge without due consideration of such public opinion as exists on so technical a subject. The second condition is that the problems of disposing satisfactorily of a large surplus of silver bullion and of satisfying a large extra demand for gold, though a temporary one only, will not raise insuperable difficulties in relation to the world's gold and silver markets.

19. What then is the cost of introducing a gold standard in India? In the memorandum entitled "A Gold Standard for India" the conclusion is reached that, on the necessarily hypothetical assumptions there stated, the scheme involves the possibility of a recurring cost of about Rs. 165 lakhs a year during the first five years and about Rs. 112 lakhs a year thereafter.

20. It is, however, important to stress the fact that these figures represent maxima. The assumptions throughout have been deliberately made to err on the side of safety. There are reasons for thinking that the actual charges would be considerably less, and there are various possible methods, some of which are mentioned or indicated in the memorandum, of reducing the liabilities.

21. In the first place, I incline to the view that 200 crores of silver rupees is an over-estimate of the amount which it is at all probable that we shall have to convert into gold. If the figure turned out to be 150 crores, this fact alone would reduce the loss on sale of rupees by 25 crores and make a corresponding reduction in the annual charges. Unfortunately, however, there seem to be absolutely no reliable data on which to arrive at a satisfactory guess in the case of this vital figure.

22. In the second place, the proposal to reintroduce the import duty of 4 as. per oz. on silver bullion (with no corresponding rebate) seems to me to be a very reasonable one, and if adopted it would reduce the capital cost by 20 crores on the basis that 200 crores of rupees will have to be exchanged into gold, or 15 crores if the amount is 150 crores. It may further be observed that an average price of 24*d*. per oz. for silver is to all appearance a very safe figure in view of the present level of world prices for commodities generally if it be assumed that the extra gold required can be obtained without causing any considerable appreciation of gold.

23. A third avenue for reducing the cost is offered by a reconsideration of the proportions proposed to be adopted for the new currency reserve. The figures in the memorandum were intended to be illustrative in the main, and it will be acknowledged that they are, in comparison with other countries, exceptionally stringent. I have been reconsidering these proportions and the composition of the proposed reserve in general since the memorandum was written, and am now inclined to suggest a different set of rules for the reserve, which are less stringent, and are also arrived at by a different method of approach. I suggest that the rules for the new reserve should require:—

(*a*) a fixed minimum of 40 crores of gold coin or bullion;

(*b*) a fixed investment of 90 crores in Government of India rupee securities, which might conveniently take the form of a non-interest bearing book-debt;

(*c*) a further investment not exceeding 20 crores in other rupee securities which might be either Government of India securities or rupee paper of a self-liquidating character;

(*d*) the balance of the reserve to be held either in gold coin or bullion or in sterling or other gold securities.

The Bank might further be permitted to increase (*c*) and reduce (*a*) within certain limits on payment of a graduated tax.

24. There are, I think, some advantages in basing the figures for a reserve of this nature on fixed amounts rather than on proportions. The rules outlined above give considerably more elasticity to the authorities controlling the reserve to vary the constituents according to requirements, without endangering the full convertibility of the exchange value of the currency.

25. The final constitution of the reserve on this basis (assuming as before a note circulation of 189·5 crores) would be as follows :—

	Crores.
Gold not less than	40
Government of India Book Debt	90
Other rupee securities, not more than	20
Sterling and other gold securities (if other figures as above)	39·5
	189·5

The gold and gold securities would amount to at least 79·5 crores or approximately 42 per cent. of the liabilities, but would probably be rather higher, as the other rupee securities would not normally amount to 20 crores. If nothing were held in other rupee securities at the outset and the 20 crores divided in the proportion of one to three between gold and gold securities, the figures would be :—

	Crores.
Gold	45
Government of India Book Debt	90
Other rupee securities	*nil*
Sterling and other gold securities	54·5
	189·5

Gold alone would compose 23·75 per cent. of the cover, while gold and gold securities would comprise 52·50 per cent.

26. The interest on the Government of India securities now in the reserve and the interest, if any, on the proposed book debt do not enter into the question of the cost of the change to the Government. That cost is represented by the loss of interest involved in keeping rather more gold and rather less earning assets (other than Government of India securities). The existing reserves contain apart from silver and Government of India securities:—

	Crores.
Gold	29·7
Sterling securities	80

If the new reserve contains only the minimum of 40 crores of gold, the earning assets will be 59·5 crores, and the annual cost when the transition is complete will be the interest on 80—59·5=20·5 crores. If the gold held amounts to 45 crores the amount of earning assets will be 54·5 crores, and interest will be lost on 25·5 crores. That is to say, the loss will be from about 61½ to about 76½ lakhs a year. The reduction of cost as compared with Mr. Denning's figure is due to the holding under my scheme of rather less gold and rather more securities. During the transitional period the charge on general revenues would be the same as that assumed by Mr. Denning, *viz.*, an average of 165 lakhs during the first five years.

27. The import duty on silver would serve as an extra protection against a fall in the average price of silver below 24*d.*, and if the assumption of an average price not less than 24*d.* is realised, would reduce the average cost during the transition period by something like 40 lakhs a year, and the final annual cost to vanishing point.

28. It may be further mentioned that a considerable addition to the sterling securities in the Paper Currency Reserve is likely to take place during the current busy season. This addition may, of course, be temporary only, but in any case it strengthens the general position, and if permanent (which depends mainly on the course of the 1926 monsoon) will provide an additional sterling asset for financing the transition. As we shall in any case get for general revenues the interest on these extra investments, they do not alter the figures as regards net loss of interest, but the extra interest may be regarded as an asset out of which to finance part of that loss, since it is additional to the revenue budgeted for in 1925-26.

29. My conclusion is that it is reasonable to hope that the ultimate charge to annual revenues as the result of introducing the Gold Standard would be negligible, though we must be prepared to face a charge up to a maximum of two-thirds of a crore a year.

To make the comparison complete, we must set against this the reduction in annual charges obtainable from the definite adoption of a Sterling Exchange Standard (*vide* paragraph 16).

30. It remains to consider the second question. Can the transition be effected without such a disturbance in the gold and silver markets of the world as will threaten or destroy the utility of gold as a standard of value? If the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States of America or in Europe, India has clearly nothing to gain by making the attempt. Even if the change is likely to cause an appreciation of gold by as much as, say, 25 per cent., India must hesitate before risking such an upset in her own internal prices, as would accompany a fall by 25 per cent. of world prices. I do not feel competent to pronounce any decided view on this essential point.

APPENDIX 8.

Note on the Profit obtained by Government on the Note-issue, submitted by Mr. H. Denning, I.C.S., Controller of the Currency.

Nos. 62 and 62A of the Finance and Revenue Accounts of the Government of India give details of the receipts and charges of the Currency Department and the net profit for the year. These accounts, however, do not accurately represent the profit obtained from the note-issue, because certain items of revenue are included which are derived from other sources and certain items of expenditure are included which are incurred for purposes other than the administration of the note-issue, while the accounts do not include any charge on account of rent of buildings. Moreover, the accounts are not very clear because sterling charges are shown separately converted into rupees at £1=Rs. 10, a separate item being included to show the exchange on the same. The annexed statement (Appendix) shows for the last four years the receipts and expenditure properly chargeable to the administration of the note-issue in rupees, sterling expenditure being converted into rupees at the average rate of exchange for the month in which the expenditure was incurred.

2. The following are the important variations from the accounts of the Currency Department given in the Finance and Revenue Accounts:—

(*a*) The item "Premium on bills" appearing on the receipt side in the Finance and Revenue Accounts has been omitted, as it does not arise from the administration of the note-issue.

(*b*) The Controller of the Currency and the Deputy-Controllers of the Currency have other functions besides the supervision of the administration of the note-issue, e.g., the administration of the public debt and the arrangements for keeping treasuries and sub-treasuries in funds. Half the cost of the offices of the Controller of the Currency and the Deputy-Controllers of the Currency has been allotted to the administration of the note-issue, the other half *plus* the rent of buildings occupied by these offices being assumed to be the cost of other work performed by them.

(*c*) Charges for remittances of treasure on the expenditure side have been omitted. It has been suggested in another memorandum that the Imperial Bank of India should, if it takes over charge of the note-issue, also be responsible for the distribution of coin and notes to the branches of the Bank and to treasuries, and that it should bear the cost of remittance to its branches. Such an arrangement, however, is not a necessary corollary to the control of the note-issue by the Imperial Bank, and although these charges would have to be taken into account in considering the general arrangements between the Bank and Government, it seems undesirable to take any account of them in considering the profit of the note-issue.

(*d*) The item of Rs. 4½ lakhs for rent of currency offices on the expenditure side of the accounts is an estimate based largely on the estimates that have recently been framed for constructing new currency offices.

3. The expenditure of the currency offices includes charges incurred in connection with coin. As the Imperial Bank would have to take over the work in connection with coin at present performed by currency offices, no attempt has been made to make a deduction from charges on this account.

4. The important variations from year to year are explained below :—

(a) *Interest on securities held in the Paper Currency Reserve in India.*—The large decrease in this item in the years 1922-23 and 1923-24 was due mainly to the reduction of *ad hoc* treasury bills held in the reserve, while the smaller decrease in 1924-25 was due to the reduction in the rate of discount on these treasury bills.

(b) *Interest on loans to the Imperial Bank against internal bills of exchange.*—This item represents the revenue obtained from the issue of additional seasonal currency referred to in the memorandum giving the history of the Indian Currency system. As it is customary for the Bank to pay interest when the loans are repaid, the amount of 37·27 lakhs for the year 1924-25 is the total amount paid by the Imperial Bank on account of loans taken during the busy season of 1923-24.

(c) *Discount of British treasury bills held in Paper Currency Reserve.*—The large decrease under this head in 1922-23 was due partly to the fall in the rate of discount and partly to the decrease in the amount of bills held in the reserve. The large increase in 1924-25 was due to the increase in the amount of bills held in the reserve.

(d) *Expenditure in England—Stores, &c.*—The large decrease under this head in the year 1924-25 is due mainly to smaller expenditure on note-forms, owing partly to the discontinuance of the issue of one-rupee notes and partly to the reduction in stocks of note-forms of other denominations.

APPENDIX.

(In thousands of rupees).

——	1921–22.	1922–23.	1923–24.	1924–25.
RECEIPTS.				
Interest on securities held in the Paper Currency Reserve in India.	3,58,17	3,07,80	2,69,53	2,46,95
Interest on loans to Imperial Bank against Internal Bills of Exchange.	...	2,10	1,36	37,27
Value of old currency notes assumed to be no longer in circulation.	46	35	27	34
Value of unclaimed currency notes ...	1,57	1,18	1,46	96
Miscellaneous	4	5	15	12
Discount on British Treasury Bills held in the Paper Currency Reserve.	61,63	23,00	21,54	70,99
	4,21,87	3,34,48	2,94,31	3,56,63
Deduct—Refunds including refunds of value of old currency notes.	*61*	*76*	*73*	*58*
TOTAL RECEIPTS ...	4,21,26	3,33,72	2,93,58	3,56,05
EXPENDITURE.				
Half the cost of the offices of the Controller and Deputy Controller of the Currency.	2,27	2,06	1,90	1,88
Currency offices—				
Pay of Officers	1,50	1,46	1,62	1,55
Pay of Establishment	10,15	10,81	11,17	11,65
Allowances, Honoraria, &c.	1,16	1,03	96	88
Supplies and Services	98	79	33	19
Contingencies	1,44	1,36	1,55	1,17
Loss on note and specie remittances ...	9	...	1,36	2
Pensions and Gratuities	36	36	42	(a) 42
Value of stationery supplied	12	8	6	(a) 6
Value of printing executed by Government Presses.	52	43	40	(a) 40
Repairs of buildings and other Public Works charges.	2,69	95	50	(a) 50
Rent of Currency offices	4,50	4,50	4,50	4,50
Expenditure in England—Stores (cost of note-forms, &c.).	62,78	58,89	53,29	29,76
Other items	13	69	71	47
TOTAL EXPENDITURE ...	88,69	83,41	78,77	53,45
NET PROFIT ...	3,32,57	2,50,31	2,14,81	3,02,60

(*a*.) Previous years' figures have been repeated as actuals of 1924–25 are not yet available.

APPENDIX 9.

Note on the Amount of Rupees Outstanding, submitted by Mr. A. C. McWatters, C.I.E., I.C.S., Secretary to the Government of India, Finance Department.

The only method of calculating the amount of rupees in the hands of the public which has been continuously prepared by the Government or, so far as is known, by any other body in India is that known as the rupee census method. This method is fully described by Mr. Findlay Shirras on pages 162-168 and in Appendix II of his book "Indian Finance and Banking." The rupee census is based on the scrutiny of 10,000 rupees selected at random in the first week of May of each year at each treasury and currency office in India and the figures are published each year in the Report of the Controller of the Currency. As there are upwards of 300 treasuries and 7 currency offices, the amount of rupees under scrutiny in each year is approximately one-third of a crore. The rupee census method of calculating the rupee circulation admittedly makes a number of assumptions :—

(1) That the percentages in the rupee census tables are estimates of the percentages of the several years' issues to the total stock of rupees in circulation;

(2) that the coinage of any year is completely in circulation in the year in which the maximum percentage is attained; and

(3) that there is a certain rate of wastage.

In the later developments of this method the procedure described in detail by Mr. Finlay Shirras is intended to reduce the element of error involved in this last assumption.

2. The figures arrived at by this method in recent years have been as follows :—

	Crores.
1919	228
1920	260
1921	233
1922	247
1923	244
1924	234

There has been no new rupee coinage in 1924 or 1925.

3. In order to arrive at the total amount of rupees outstanding, including the silver held by Government, it is necessary to add to this figure the amount of silver coin and bullion in the hands of Government. On the 22nd of November, 1925, the amount of coin held in the Reserve was 81,10 lakhs and the amount of bullion 7,13 lakhs, making a total of 88¼ crores. According to this method of calculation, the amount of rupees outstanding, including Government silver, would be not more than, say, 325 crores in round figures.

4. In view of the assumptions made by this method it is desirable to apply, if possible, some further check. An attempt is made below to apply a check based on the total coinage of rupees from 1835 making deductions for such amounts as are known or can reasonably be assumed to have disappeared. The total coinage of rupees from 1835 to date is 647½ crores which includes 8½ crores coined for Indian States. The latter coins, although marked with the designations of the States, are current in British India.

Coins are withdrawn from circulation under standing orders and melted down for recoinage when they fall below certain limits of weight or are defaced. All treasuries in India remit such coins to the mints when they are used for recoinage. The total amount of recoinage since 1835 exceeds 90 crores. This recoinage includes a certain quantity of half-rupees, but we may safely take a round figure of 85 crores as a legitimate deduction.

The second deduction that can be made is on account of the rupees of 1835, 1840 and 1911 which have been withdrawn from circulation. The issue of 1911, it may be mentioned, was withdrawn owing to a defect in the design. The other issues were withdrawn about 1900 and 1904, respectively, after having been in

circulation for more than 60 years. The total amounts of these three issues which have been withdrawn since 1900 and 1904 are:—

	lakhs.
1835 issue	4,05
1840 "	35,38
1911 "	43
Total	49,86

The original amount of these issues was:—

	lakhs.
1835	16,40
1840	1,07,83
1911	94
Total	1,25,17

Coins of these three issues are hardly ever seen in circulation and no large quantity of them is likely to be retained in hoards. They must have been largely melted down, or had disappeared in other ways, before the orders for withdrawal were issued. This is practically proved by the statistics of withdrawals for the last five years which have been as follows:—

	(In thousands of Rs.)		
	1835.	1840.	1911.
1920-21	2,56	30,78	9
1921-22	2,59	29,61	10
1922-23	2,81	31,36	12
1923-24	2,77	28,99	8
1924-25	2,33	25,20	5
Average	2,60	29,13	9

That is to say, out of an original coinage of 125 crores, less than 32 lakhs a year are now being received and withdrawn.

It would be legitimate to assume that no more than 5 crores of these issues still remain to be redeemed and it would follow that 120 crores of these issues have been disposed of. In view of the fact, however, that the rupees of these issues withdrawn have been employed for recoinage, we are entitled to take only 70 crores as a legitimate deduction. The deductions which can be made therefore amount to 85 *plus* 70 crores, leaving 492½ crores unaccounted for.

5. This figure of 492 crores makes no allowance for the melting down or disappearance in other ways of any of the coinages since 1862. It is well known that rupees are largely melted down for ornaments and there is also a continuous drain across the land frontiers, of which there is no record. In view of the rate at which the 1835 and 1840 coinages have disappeared, it seems hardly reasonable to suppose that the melting and disappearance of all the coinages since 1862 will not greatly exceed 92½ crores. These figures suggest that the maximum number of rupees outstanding is probably nearer 350 than 400 crores, and they therefore to some extent corroborate the figure arrived at by the rupee census method.

6. So far as half-rupees are concerned, these have been coined from time to time only as required for active circulation, and although half-rupees are unlimited legal tender, it may be assumed that the amount outstanding is not more than would continue to be required for use as subsidiary coin.

7. The figure of 150 crores of rupees, which has been elsewhere suggested as the maximum amount of whole rupees that would be required in circulation if the rupee became limited legal tender, allows for less than 5 rupees per head of the population. There are a few areas (notably Hyderabad) where Indian State currency still circulates; against which, however, may be set the fact that the rupee is the currency in use in Ceylon, Iraq and Mauritius, and also circulates in some of the areas beyond the land frontiers of India.

8. No direct calculation is possible of the amount of rupees retained in hoards. The use of this term also is not free from misunderstanding, since it is the natural instinct of a large proportion of the inhabitants of India to keep

some store of cash as a reserve against a rainy day instead of placing it in a bank or investing their money. Such hoards may be called temporary hoards and certainly the greater number, if not the greater part, of the hoards of India consist of relatively small sums (from Rs. 15 to Rs. 1,000) set aside in this manner. The practice of retaining small hoards of this kind would probably not altogether cease even if the rupee were made limited legal tender.

APPENDIX 10.

Note on Reverse Councils and Currency Contraction, submitted by Mr. H. Denning, I.C.S., Controller of the Currency.

The following is the information asked for by the Currency Commission regarding the action taken by Government to contract the currency on the various occasions on which Reverse councils have been sold.

(1) In 1907-8 and 1908-9 the total sales of Reverse councils were £8,058,000. All the sterling paid in London was debited to the Gold Standard Reserve and rupees were transferred in India to the Gold Standard Reserve simultaneously with the sterling debits to the Gold Standard Reserve in London. The currency, therefore, was contracted to the full extent of the sales of Reverse councils.

(2) In 1909-10 the sale of Reverse councils amounted to £156,000. Payment was made from the Secretary of State's treasury balance and the amount received in India from the sale of the bills was credited to the treasury balance in India. There was, therefore, no contraction of the currency.

(3) In 1914-15 the sales of Reverse councils between August 1914 and January 1915 amounted to £8,707,000. When the sales were started it was arranged that transfers of gold should be made in India to the Gold Standard Reserve either from the treasury balance or from the Paper Currency Reserve simultaneously with the payments from the Gold Standard Reserve in London. Transfers to the full amount of £8,707,000 were actually made in accordance with this arrangement. From the beginning of October, however, Government took loans in gold from the Gold Standard Reserve in India and the amount of the loans taken between the beginning of October and the end of December was £8 millions. The net effect of the two sets of transactions, therefore, was that the currency was contracted by 105 lakhs only as against the sale of Reverse councils of the amount of £8,707,000. The reasons for borrowing from the Gold Standard Reserve were (to quote the communique issued at the time) "to strengthen the Government balances in view of the special strain now placed upon them in various directions, and to avoid the necessity of reducing the amounts which Government has been able to keep with the Presidency Banks for the general assistance of trade." The loan of £8 millions from the Gold Standard Reserve was repaid in the following instalments :—

£1,000,000	in February, 1915.
£345,687	in February, 1916.
£2,654,313	in March, 1916.
£500,000	in January, 1917.
£2,000,000	in February, 1917.
£1,500,000	in March, 1917.
£8,000,000	

(4) In 1915-6 Reverse councils of the amount of £4,893,000 were sold. Of this amount £4,668,000 was paid from the Secretary of State's treasury balance and the proceeds of the sale of the bills were credited in India to the treasury balance. The remaining £225,000 were paid from the Gold Standard Reserve in England and gold of this amount was transferred from the Paper Currency Reserve in India to the Gold Standard Reserve. There was, therefore, a contraction of the currency of the amount of 34 lakhs only.

(5) In 1918-9 Reverse Councils of the amount of £5,315,000 were sold. On this occasion the Secretary of State had a large treasury balance and was able to meet the payments on account of Reverse councils from this balance without drawing on the Gold Standard Reserve or the Paper Currency Reserve. The amounts obtained from the sale of the bills in India were credited to treasury and there was no contraction of the currency.

(6) In 1919-20 and 1920-1 the total amount of Reverse councils sold was £55,532,000. The entire amount was in the first place met from the Secretary of State's treasury balance and the sale proceeds of the bills were credited to the treasury balance in India. Between March and October 1920, however, the Secretary of State drew £46,650,000 from the Paper Currency Reserve in England and the withdrawal of this amount would have involved a contraction of the currency in India to the extent of Rs. 68,73 lakhs if the Government of India had not issued *ad hoc* treasury bills to the Paper Currency Reserve in India to the extent of Rs. 34,05 lakhs. The net result of all these transactions was, therefore, that the currency was contracted by Rs. 34,68 lakhs as against the sale of Reverse councils amounting to £55,532,000 from which Government realised Rs. 47,14 lakhs in India. The currency was not contracted to the full extent of the amount realised by the sale of Reverse councils as it was feared that the money stringency which would have resulted might have seriously dislocated business generally.

APPENDIX 11.

Statements prepared in India for the use of the Commission.

(A).—*Statement showing the Absorption and Return of Rupees and Notes in the Busy and Slack Seasons in each year from* 1912–13 *to* 1924-25.

(*In lakhs of Rs.*)

Year.	Busy Season.		Slack Season.		Total.	
	Rupees.	Notes.	Rupees.	Notes.	Rupees.	Notes.
1912–13	32,42	−2,31	−21,20	2,44	11,22	13
1913–14	32,20	55	−26,15	1,87	6,05	2,42
1914–15	19,14	−9,79	−25,36	6,72	− 6,22	−3,07
1915–16	29,66	52	−21,05	7,96	8,61	8,48
1916–17	49,27	9,14	−15,78	8,70	33,49	17,84
1917–18	33,64	−11,53	−6,73	27,33	26,91	15,80
1918–19	29,72	26,82	13,79	25,48	43,51	52,30
1919–20	17,79	3,63	2,23	19,62	20,02	23,25
1920–21	−7,44	−2,56	−18,13	− 4,57	−25,57	−7,13
1921–22	91	−3,31	−11,99	11,91	−11,08	8,60
1922–23	4,57	−7,30	−14,19	7,24	− 9,62	−6
1923–24	22,44	1,56	−15,05	9,58	7,39	11,14
1924–25	13,41	−5,98	−9,76	3,47	3,65	−2,51

(−) Indicates return.

NOTE.—For 1912–13 to 1916–17, see para. 22 of the Report of the Controller of the Currency for 1916–17.

For 1917–18 to 1924–25 (Busy season taken to be November to May, and Slack season June to October).

(B.) *Absorption of sovereigns from* 1909–10 *onwards, showing separately absorption after passing through Government treasuries and Currency offices and direct absorption without passing through Government.*

(*In thousands of £*).

Year.	Absorption after passing through Government treasuries and Currency Offices.	Direct absorption without passing through Government.	Total.
1909–10	772	2,102	2,874
1910–11	7,187	914	8,101
1911–12	7,600	1,289	8,889
1912–13	10,245	856	11,101
1913–14	10,843	1,231	12,074
1914–15	4,990	632	5,622
1915–16	− 264	456	192
1916–17	917	1,200	2,117
1917–18	7,758	1,748	9,506
1918–19	3,475	—	3,475
1919–20	− 2,215	—	− 2,215
1920–21	− 6,054	3,136	− 2,918
1921–22	− 2	1,858	1,856
1922–23	2	6,288	6,290
1923–24	—	4,493	4,493
1924-25	—	9,912	9,912

(C.) *Value of Net Imports of Gold and Silver on Government Account from 1909–10 to 1924–25.*

(*In lakhs of rupees.*)

Year.	Gold.	Silver.	Total.
1909–10...	1	8	9
1910–11...	—	6	6
1911–12...	–1	5	4
1912–13...	–3,58	10,62	7,04
1913–14...	—	6,79	6,79
1914–15...	–81	–1,14	–1,95
1915–16...	4	–75	–71
1916–17...	–4	22,13	22,09
1917–18...	5,24	18,36	23,60
1918–19...	–3,08	–66,90	63,82
1919–20...	31,29	29,66	60,95
1920–21...	10,99	–1	10,98
1921–22...	–7	15	8
1922–23...	1	18	19
1923–24...	—	31	31
1924–25 (for 11 months only)	—	2	2

(–) indicates return.

(D.)—*Table showing percentage in certain years borne to India's total trade by trade with the British Empire and with the United Kingdom respectively.*

British Empire (including United Kingdom).

	1900–01.	1905–06.	1909–10.	1914–15.	1919–20.	1923–24.
Exports from India	42%	32%	33%	40%	37%	33%
Imports to India	67%	69%	64%	69%	54%	60%

United Kingdom only.

	1900–01.	1905–06.	1909–10.	1914–15.	1919–20.	1923–24.
Exports from India	30%	25%	26%	31%	30%	25%
Imports to India	64%	67%	62%	67%	50%	58%

N.B.—The years have been selected at random.

(E.)—*Statement showing the imports into India of Silver in* fine ounces *during the five years ending with* 1913–14 *and during the last three years.*

(000's *omitted.*)

Years ...	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1922–23.	1923–24.	1924–25.
	Fine Ounces.					Fine Ounces.		
Government Account	289	238	168	51,853	32,768	787	1,106	70
Private Account	69,550	63,840	64,932	47,298	41,079	88,475	98,643	1,13,084
Total ...	69,839	64,078	65,100	99,151	73,847	89,262	99,749	1,13,154

APPENDIX 12.

Statement of evidence submitted by Dr. Praphullachandra Basu, M.A., B.L., Ph.D.(Econ.), Vice-Principal, Holkar College, Indore. C.I.

The relevant points on which discussion should centre in connection with Indian currency at the present time seem to me to be the following :—

I. What are the effects of the variation of the rate of exchange upon the trade and production of India.

II. Whether the Gold Exchange Standard should be retained for India or whether India should take steps towards having gold or silver currency.

III What steps are necessary in order to improve the present machinery of Indian exchange if the gold exchange standard be retained.

IV. In terms of what should the Indian currency be fixed in foreign exchange. Whether it should be so fixed now.

V. Suggestions to the Commission.

I shall deal with each of the above items separately.

I.—Effects of Variation in the Rate of Exchange.

The effects of a variation in the rate of exchange upon the trade and production of a country should be considered under two heads, viz., (1) Temporary, and (2) Permanent.

(1) *Temporary Effects.*

In India the rate of foreign exchange is quoted in terms of sterling, that is, the foreign currency. Thus if there is a rise in the rate, it means that the home currency has appreciated. This will have adverse effects upon the exporter, for he finds that he has to surrender more in terms of the foreign currency of the country where he has sold his goods than he used to do before. Thus the amount in rupees for the same quantity of the goods at the same price in the foreign country becomes less. Getting less than before he can offer less to those from whom he buys. Therefore, the demand price of the commodity, which is offered to its producers, falls. Thus a rise in the rate first affects the export trade and then necessarily the production of the goods which are subject to the export trade of the country.

On the other hand, a rise in the rate helps the importer. He finds that in order to pay for the same quantity of the goods at the same price in the foreign country, he has to give less in rupees. This leads to an increase in the imports. Such an increase brings about a fall in the price of the imported goods and thereby benefits the consumers of the country.

(2) *Permanent Effects.*

The above are the temporary effects. If the process continues sufficiently long, then there are interactions upon exports and imports and, through them by a sympathetic operation in prices, upon most other goods. If the rate of exchange goes up, the increase in imports reduces the prices of all imported goods as also of those which may be used as substitutes for them. Thus a material fall in the price of cotton piecegoods of above 30's counts would affect the price of those of below 30's counts; a fall in the price of sugar bring down the price not only of home-made sugar but also of *gur*. Further, this fall in the prices of so many articles will lead to a sympathetic fall in the prices of other articles which are not directly subjects of foreign trade. Such a wide fall in the prices of most articles will necessarily reduce the cost of production of the exported articles. Every fall here will neutralise the effect of a rise in the rate upon their exports. On the other hand, a fall in the price of the imported articles will neutralise the importer's advantages from a rise in the rate. As the cause operating is the same, viz., the rise in the rate of exchange, the chance of the effects of imports neutralising those of exports is the greatest.

Of course, different interests will be affected differently, but ultimately the effects must be as stated above. Thus in the long run, that is, when sufficient time is allowed for the internal prices to adjust themselves to the variation in the rate of exchange, the latter has little effect upon the trade and production in the country. As I believe that there is effective competition among the exporters and among the importers, this time is not usually very long, even in a country like India.

Thus the disturbing effect is due not to a rise or fall in the rate of exchange but to the *rising* or *falling* rate of exchange. Hence if once the rate is stabilised at any one point—the exact point is not of very great importance—the trade and production of the country would remain practically unaffected. This is especially so in a country like India where mass production with heavy and costly specialised plants is not yet very widely spread.

II.—The Gold Exchange Standard.

Here I propose to deal with the gold exchange standard not only as it is in India but as it might be for any other country in the world.

(1) *General Principles.*

The fundamental principle of the gold exchange standard is that the home currency is different from the medium of international payment. But the relative value of the two is permanently fixed in terms of each other. It is evident that if this be secured, all the advantages of a gold currency will accrue, for the main object of introducing gold as the currency is to be assured, in times of need, of the adequate supply of a metal which is universally accepted in the settlement of outstanding debts. The working of the system is not very complicated. A gold reserve is built up to ensure that the international currency will be available when required by the demands of external trade. This may be distributed amongst different centres of the world according to the needs of the country for foreign remittances. Bills will be drawn by the Government of the country either on itself and sold abroad, or on its foreign gold reserve and sold at home. The amount of such bills should be the difference at any time between the demand for remittances and their supply at par. (1) Thus, if at Paris the rate on a country, as quoted in the home currency, goes up, this would show that demand for remittances to the country whose currency has thus appreciated at Paris is greater than supply. Bills on that country, drawn against the foreign gold reserve, will be sold at Paris, and their amount would be just enough to bring down the exchange rate to par *plus* the cost of transporting specie. It is, therefore, clear that these bills must in all cases, be the marginal bills in the market. The gap covered by the excess of demand over supply is just filled up by the sale of these bills. This can be easily managed by an open offer to sell at the fixed rate to an unlimited extent. (2) On the contrary, when the exchange rate falls in Paris, it shows an excess of supply of foreign bills over their demand. At such a time the foreign country, whose currency has thus depreciated, would draw bills against its gold reserve at Paris, and thus choke off some bills at Paris by supplying remittances to the foreign debtors of Paris exporters. Or, in such a case the French Government may undertake to sell, in the foreign country, remittances to Paris, with the same result, viz., to push up the exchange rate at Paris. The French Government would do this whenever it finds this to be a cheap means of building up a reserve in the particular foreign country. In case (1) the bills will be drawn against French gold reserve in the foreign country but paid in the currency of that country, which will be easily available there. In case (2) the bills will be sold in foreign currency but matured in French currency. If they are sold by the French Government the sale proceeds will add to its gold reserve in the foreign country, that is, the foreign country will convert the sale proceeds of the bills realised in its currency and credit France with a corresponding amount in its gold reserve. It is evident that actual gold need not pass even between the agency of the French Government and that of the Government of that foreign country, because an accommodation like this in terms of gold will be required by the French Government mainly to sell in Paris bills against it, and these will be paid in the foreign currency. What the French Government needs to be sure of is that the reserve which it has built up in the foreign country by a sale of bills on Paris will again give it an equivalent amount when Paris bills are drawn against the reserve.

Within the country the home currency will consist wholly of token coins and notes, including the full legal tender money. The Government will guarantee an unlimited conversion of the home currency into gold bills, and *vice versa*, thus always ensuring that the exchange rate will not vary beyond certain maximum and minimum limits. These limits should be fixed at the specie points. Thus all bills sold by the Government will bring some profit to it inasmuch as, normally, the foreign reserve will be built up at the gold import point, and the bills on foreign countries will be sold at the gold export point. All this profit should be earmarked for swelling the gold reserve. The main portion of the reserve will be

built out of the profits of coinage. The home currency being wholly of token coins and notes, its issue will mean profit to the Government. This should be utilised in piling up the gold reserve of the country.

(2) *Its Advantages.*

Thus the gold exchange standard will bring about the following advantages:—

(1) Economy in the cost of the home currency. Now the country will not have to lock up a large portion of its national wealth in the mere circulating medium of the country. Moreover, gold will fall in value if national assets are not locked up in financing the actual circulating medium of the country. At the same time the present stock of gold can be utilised for the new gold reserve for exchange purposes. On the other hand, however, the profit derived out of token coins will be used also in buying gold for the reserve, and to this extent, which will be much less than what would be required if the home currency were in gold, the demand for gold would rise.

(2) Economy in building up the gold reserve. The profit out of minting token coins will swell the gold reserve, or accommodation in foreign currencies fixed in terms of gold. It is evident that, in the beginning, the first and the second advantages cannot both accrue, since, to secure the second, the first will be swallowed up. But that will be so only till a working reserve is secured. After that, instead of all the profit, only a certain proportion, fixed and definite, may be thus utilised. The rest will be the net profit to the country. To the extent that notes can displace actual coins, there will be further economy to the country because the note issue is nothing but token money with a seigniorage charge of 100 per cent.

(3) The exchange rate will be as stable as it can be under the existing system of gold standard, because the fluctuations can never go beyond the limits fixed by the gold points. Probably it will be less, especially when the movement of gold is minimised by the introduction of the system of granting credit to a country in a foreign country against the former's holding of gold in a third country; which, of course, will be earmarked for such credit till it has matured and has been met.

(4) There will be international guarantee against seizure of this gold reserve in foreign countries. This will assure international trade of a medium of settlement, which will be available for this purpose alone. The guarantee will further enhance the international credit of a country, because by it the reserve cannot be sequestered in any circumstances. Similarly, the internal law of the country will guarantee against its sequestration by itself for any purpose other than maintenance of exchange; that is, settlement of its external debt. The amount of this reserve, together with the condition of its external trade, or rather the balance of its outstanding external debt will determine at any time the international credit of the country, inasmuch as this will show the capacity of the country to finance its external trade, when its imports and exports, visible and invisible, do not equate. The main attempt of each country should be to accumulate a reserve which is not excessive, because that would mean a national wastage, but which is certainly not below what is required by the conditions of its external trade. Thus it will be cheaper for a country to build up its foreign reserve if it has a favourable balance of trade, as it can sell remittances to itself from foreign countries. But the cost, in any case, can never exceed the expenses of shipping gold. An adverse balance of trade will necessitate a sale of bills on foreign countries. This, however, need not necessarily mean transport of gold to these countries. If those countries buy accommodation in the country concerned, guaranteed by the gold which must be otherwise sent to meet the adverse balance it can receive similar accommodation in those countries, against which it can, in its turn, sell bills. In this operation what are known as arbitrage transactions will necessarily enter, and the chances of loss by fluctuations in the exchange rate will be further reduced. In any case, if the country is solvent in the long run; that is, if ultimately its debt balances its credit, as there must be under the operation of economic forces, the exchange rate can never fluctuate beyond the gold points. The fluctuations will reach gold points only for a time during which a tolerably good reserve is being built up. After that the fluctuations may be further limited. At the same time all the advantages mentioned in (1) and (2) above will accrue to the country.

(5) One advantage of the gold exchange standard over bimetallic and other systems is that it can work with countries on a gold basis. Even if a country

refuses to accept it finally or even temporarily this will not hinder other countries from adopting it, and yet carrying on international trade with gold-using countries. If, for example, Greece sticks to the use of gold, France or England, if it adopts the gold exchange standard, can sell bills in Greece on Paris or London, and pile up its gold reserve there at a time of favourable balance, and sell bills in Paris or London on Athens at a time of adverse balance of trade. For the latter contingency it must have a reserve in Greece or in any other country bills on which are in demand in Greece. Of course, if all the countries join together and use token coins and notes as their home currency, the gold reserves can be more cheaply built up, since the gold circulating at home will thus be liberated and earmarked for the settlement of international debts.

(6) In the beginning the gold reserve must remain as the basis of all such settlement. But when the war conditions disappear and the normal working of the system continues, it is not necessary for actual gold to be passed from one country to another. Gold, for example, may be definitely set apart for supporting the exchange rate with another country, and gold certificates may be issued against the reserve, which the Government of the other country will recognise as representing gold. This involves international guarantee of the gold reserve, and the local Government's good faith in not diverting this reserve so long as the gold certificates in the foreign countries have not been paid off by a sale of bills on its own country, drawn in the country where the gold certificates originated. These transactions will have to be done under the sanction of the Government concerned, but through a recognised bank. The greatest publicity should be given to the amount of the gold reserve as earmarked for supporting the exchange rate with a particular country; to the amount kept fluid, ready to be turned for other exchange purposes; as also to the variations in each from time to time, say, from week to week. Finally, when the system has worked for some time, the problem of whether, instead of gold certificates; that is, representatives of actual gold kept in the reserve, international credit papers based on gold can be created, may be profitably discussed. The gold reserve will then work exactly like the cash reserve in the home currency, kept against the note issue. This will mean further economy in the use of the metal as international money. This system, if properly handled by an international body, can reduce the uncertainties of fluctuations in the value of gold, which are sometimes a highly disturbing factor, especially with regard to the disturbances in the level of world prices. This is a highly subtle operation, but to the present writer it does not seem to be altogether outside the range of practical considerations.

All the foreign operations can conveniently be carried on by the central banks of the different countries, as, for example, the Bank of England working on behalf of the British Government.

(3) *Its Drawbacks Examined.*

There are, however, certain drawbacks of the gold exchange standard, which should be carefully studied, and their operation properly comprehended.

(1) The first drawback, which must at once attract the attention of the casual observer, is that the gold exchange standard is a Government managed system. From this the conclusion is too hastily drawn that it is therefore not automatic in its operation. Of course, it is managed by Government. But it is nevertheless automatic. The essential feature for an automatic currency is that its amount should increase or decrease according to the need of the country; that is, according to the volume of transactions to be carried on with the currency. If, for example, there is an adverse balance of trade, it shows that the country is a good market to sell in and a bad one to buy from. The reverse process is at once started by the efflux of specie to meet the adverse balance when the reduction in the home currency increases its value and diminishes the prices, thus making the country a better market for buying and a worse one for selling. If this be considered as the fundamental feature of an " automatic " as opposed to a " managed " currency, then the gold exchange standard is certainly automatic, even if it be managed by Government. Let us suppose that both England and France have adopted this system; let us also suppose that exports from England to France are greater than the imports. Under the existing system gold will flow from France to England, swell its currency, and push up English prices, while the contrary will be the case in France. The remedy will thus be found by cheapening French products in England and making English products dearer in French money. Therefore, French exports to England will increase and English exports to

France will diminish; and the balance of trade will be restored. It should be noted that the amount of export, which is invested abroad, does not affect the rate of exchange so long as it or its income is not remitted home.

Now let us see what will be the case when England and France, in our foregoing illustration, are under the gold exchange system. To make payments to the English creditors, French debtors will, as under the present system, try to buy bills on London; but as the amount of these represents the amount of English debt to France, it will be less than the French debt to England, because there is, as has been supposed, an adverse balance against France. So, sterling will tend to rise in terms of franc, and as gold is not circulating in either country except perhaps as token coins, the rise in exchange will tend to be indefinite, limited only by the extent of the token character of the gold coins, if any, in circulation, or the facility of buying gold as a commodity in France. But here the Government will intervene, and sell an unlimited amount of sterling bills realisable in London at a rate corresponding to the gold export point. This will at once check the rise by neutralising the excess of demand over supply of sterling bills in France. By their sale the French Government will realise, in French home currency, the amount of sterling in franc. This should be rigidly kept out of circulation as a part of the home reserve for maintaining the exchange rate, and therefore the amount of French currency, being reduced, will rise in value and bring about a fall in prices. At the same time, these bills will be presented in London and paid in English home currency out of the accommodation which the French Government will have from the English Bank against the French gold reserve in London. This will swell the currency in England, bringing about a fall in its value and a rise in prices. This is exactly the process which we want to have in operation in the case of an excess of English exports over imports, and this is exactly what the gold standard normally does. The point to be noted is that the French currency thus locked up should never be liberated except to mature Paris bills sold in other countries to maintain the rate of exchange. It is in this way alone that the home currency will respond to the joint stimulus of home and foreign trade. And this is what we mean to have when we say that the currency should be automatic. Thus it will be seen that a " managed " currency and an " automatic " currency are not two contradictory conceptions as in the popular mind, but that the two principles can be combined together in the gold exchange standard system, to the great economy of the countries adopting it.

(2) It is evident that, to secure the greatest economy, it is essential that the home currency should consist of very cheap metals, so long as metals are considered to be necessary parts of home circulation. This means that silver and other metals will be largely used as token coins. It may be anticipated that the countries adopting the gold exchange standard will have more coins of silver, displacing gold. This means that the value of token silver coins must remain below their face value as fixed by the exchange rate adopted and maintained by the Government of the country. Want of this led to grave troubles in India during 1917-1920, especially in 1919-1920. It is evident that if the price of silver rises in terms of gold, and sweeps away the token character of silver coins circulating in different countries, it will be profitable to utilise such token coins as specie, and use them for other than currency purposes. For example, India till 1916 had a fixed exchange of 1*s.* 4*d.* to the rupee, the rupee coin containing metal roughly worth two-thirds of the face value. By 1917 the price of silver increased so much as to make the intrinsic value of the rupee more than its face value as fixed by law and maintained in exchange. The Government had no alternative but to raise the rate to cover the rising value of the metal. The sterling value of silver rose from below 28*d.* per ounce to about 90*d.* Apparently the rupee coin was threatened. The exchange rate had to be raised to more than 2*s.* 10*d.*, and the Government had to support this rate by selling bills in India on its gold reserve in London. The resources of the Government were too limited to meet the unforeseen and unprecedented rise in silver. During the last half of the nineteenth century the fall in silver unnerved all the countries, and several international monetary conferences were held to stabilise, if possible, the gold value of silver. But then the price of silver varied from 59½*d.* per ounce in 1844 to 42*d.* in 1889, a fall of about thirty per cent. Whereas the sterling price of silver in 1920 as compared with that of 1914 rose by more than two-hundred per cent., from which the extent of sterling depreciation of about thirty per cent. will have to be deducted to find the net variation. Therefore, we may say that the variation in the value of silver was unprecedented and, humanly speaking, no country could have made provision for such a rise in anticipation of events. In such extreme cases the exchange rate will have to be altered to protect the

coins unless a country is prepared to give up its coins of a particular metal, the gold price of which rises. But ordinarily the best insurance against such a contingency is to have a token silver coin, the face value of which will be considerably above its metallic value, so that any probable rise in silver will not easily swallow the margin by which the coin is made token. If this be done, then this feature, instead of being a drawback of the gold exchange standard, becomes highly economic in two ways. Firstly, it makes it less costly for a country to have its coin circulation, thus reducing the cost of national investment in the home currency. Secondly, as the profit of coinage, or a portion of it, is to be utilised for building up the gold reserve, the resources of a country to have its gold reserve increase with the margin which is kept between the face and metallic values of the silver coin To the extent that gold coins are kept for home circulation this contingency does not arise. The above considerations *ipso facto* apply to token coins of other metals.

(3) There is the danger of currency inflation, which, it may be urged, will increase if the system be adopted. When the existing gold system is in normal working order, any divergence between the value of the coin and that of its metallic contents is quickly reduced through the system of free coinage. But under the gold exchange standard the mint being closed to the public, there will not be any such increase in the coins nor will there be a reduction by melting since the coins will be token ones. In this consideration we should not lay too much emphasis on the function of coins in the determination of internal prices. The limitations of the quantity theory of money should be recognised. In the present system money has been displaced to a considerable extent by notes, and, where, as in the United Kingdom, the note issue is very rigidly limited by the legal conditions regarding the metallic reserve, the law has been successfully dodged to the great benefit of the country by the development of the system of cheques, bills, and advances by book-credit. The Bank Charter Act of 1844 might have ruined the economic progress of the United Kingdom if this system had not taken up the work which the Act sought to restrict. In Germany and America the English system has been relaxed for occasions of emergency. The argument may be advanced that the notes, being legal tender, should be cautiously guarded. This is right, and this can be attained in the gold exchange standard by carefully noting the variations in the purchasing power of money, or the rate for money, and making the home currency elastic enough to respond to such variations. But the fact needs to be emphasised that the internal trade of a country can be and, in all advanced countries, is actually financed mainly through the credit system which has developed so wonderfully, and the evils from the temporary breakdown of which are so patent in Europe now. So, the home currency need not in itself be so responsive to the demands of internal trade. It was not so before the War disorganised the gold standard. Rather it should respond to the movements of external trade where bills are considered, either really as in the case of " drafts with documents," or fictitiously as in the case of " accommodation bills," to be the crux on which the rate of exchange largely depends. Moreover, bullion as money enters only in international payments as a determinant of values. Therefore, the response which a country should aim at can be secured, as has been shown previously, by locking up the proceeds in the home currency, out of the sale of bills on foreign countries against the gold reserve, and releasing them only in payment of bills drawn by the Government on itself, and sold in foreign countries to support the rate of exchange or add to its gold reserve in those countries.

If it be considered essential to have the home currency immediately responsive to the internal trade conditions without, as is really done, having an inflation or deflation of the credit system, this also can be achieved in the gold exchange standard. Ordinarily when gold rises as bullion, coins are withdrawn from circulation to be used as metal, and when it falls, bullion is brought to the mint for coinage In the gold exchange standard when gold falls in terms of the token coin at its face value, the Government would be prepared to receive gold and issue the home currency, and release the gold locked up by the former process. But this demand for gold cannot be for an indefinite quantity because this gold cannot be coined and therefore can have only bullion value within the country. To begin with, the export of this may have to be restricted as it is done at present by all the European countries. Or, instead of releasing gold within the country, gold bills may be issued on another country as are done by India on London in the form of sterling drafts called reverse council bills. In either case the ultimate effect on the home currency will be the same.

Thus the system will work even with a gold standard for internal prices without a gold currency, and, on this point, will be analogous to the external standard which is always gold. It should be noted that this gold reserve for internal use must be entirely separate from and unconnected with the gold reserve maintained to support exchange. This does not mean that there will not bé any transfer of gold from the home reserve to the exchange reserve. Like the issue and the banking departments of the Bank of England, the two will work in harmony but kept distinct. This internal gold reserve need not necessarily be the object of international agreement, and may be left to individual States. So far as other countries are concerned the level will be automatically determined by the balance of indebtedness working through the locking up or release of the home currency through the exchange reserve.

(4) It may be objected that the cost of building up and maintaining a gold reserve dispersed in many countries will be very great. This should not act as a deterrent inasmuch as such cost can never even approach what will entail if an attempt be made to rehabilitate gold as the circulating medium of all those countries which are without a gold standard now. Moreover, the gold reserve will be kept at different places also for the sake of economy. For example, if, in Sweden, bills on Paris be at a premium, the obvious interest of both France and Sweden, under the gold exchange standard will be to sell bills in Sweden on Paris. Sweden will do so to add to its gold reserve at home, and France to add to its reserve in Sweden. In either case these bills will be sold at a rate approximating to the gold export point in Sweden, since they supply a market which is short of bills; that is, the value of kronor in terms of francs will have gone down. This means that the gold reserve in Sweden, whether accumulated by that country or by France, will grow at a cost less than it would do at par. Therefore, the proposed dispersion of the gold reserve of a country is meant for further economising the cost of the reserve. Such a reserve may be at home or at any important centre abroad. When the system has developed sufficiently it will not be necessary to transmit gold from the reserve in one country to that in another, but gold certificates or even credit papers can be issued in one country backed by the gold in the reserve held in another country, but earmarked for the redemption of such certificates or credit papers. Even with regard to the cost of holding such reserves it is not necessary to have them separately at the same centre by the different countries. but the local bank, *e.g.*, the Bank of England in London, may keep them and charge the cost to those countries. With international guarantee of the integrity of the reserve, the cost of maintenance will be materially reduced.

(4) *Its suitability for all countries.*

There is little chance of recovery from the currency disorganisation in the European countries east of the Rhine. In other words, more than two-thirds of Europe are not expected to recover if the gold currency is sought to be re-instated. Of these parts Germany was the only country which probably might recover but now its case also is hopeless. Therefore, a cheap and effective method of currency recovery will have to be found if the delicate balance of the economic situation in Europe is to be restored. In this, not only are the more favourably placed countries of Europe concerned, but all the countries of the world. Japan suffers from want of any demand for its goods. India is passing through a similar crisis; its exportable surplus cannot be absorbed so long as the currency and exchange system of Europe is not placed on a sound footing. The United States is also suffering from the same want of demand for its exports. At the same time a large portion of humanity is suffering from want of goods which glut the extra-European Markets. Humane sentiment and self-interest thus combine to urge the great countries of the world to help the rebuilding of Europe. Besides the settlement of the amount of reparations and the balancing of the budgets, an essential condition of such work is to re-organise the currencies of those countries, and, in doing so, one must not lose sight of the cost of the home currency. The home currency in most countries consists of inconvertible paper, but within the countries themselves, the paper has been circulating, although, in some cases, hopelessly depreciated. The immediate problem, therefore, is to stabilise exchange, that is, the value of home currency in terms of foreign currencies or preferably gold, and simultaneously to reform as rapidly as possible the home currency. The process will be rapid in proportion as it is cheap. The recovery will be effective in proportion as it is not merely a makeshift, but based on a

system which can work permanently. The gold exchange standard has both these essentials. It is cheap inasmuch as it dispenses with the national investment of a large sum in the home currency, releases most of the existing gold reserves to stabilise the external value of the home currency, and further provides for a development of the reserve in proportion to the increase in the volume of transactions, which, by demanding more of the home currency as time goes on, will swell the profits of coinage to be utlised for the exchange reserve. The system is permanent inasmuch as it will work with equal efficiency when normal conditions are restored. Indeed, it will then work with greater efficiency than the gold currency by being independent of the fluctuations in the value of bullion.

It may be pointed out that the exchange standard will not hinder any country from subsequently adopting the gold standard. When the gold reserve is sufficiently big, and when time is considered to be ripe for it, the reserve may be utilised in replacing the token legal tender by gold coins, and in withdrawing the token coins and notes in exchange for the new coins. Thus the gold exchange standard can be adopted not only by those countries which intend to stick to it, but also by those which want to have the gold currency and are unable to finance it now. Unlike national bimetallism it has the further advantage in being able to work efficiently side by side with gold currency in the neighbouring countries.

Finally, it may be pointed out, although it must be known to all economists, that a high or low exchange rate has no permanent effect upon the trade and production of a country. Once exchange fluctuations are steadied through the gold exchange standard, and the rising or falling exchange rate stabilised, it may be, at any point, adjustments proceed rapidly. In fact, to some extent, adjustments have already been effected. After this process is completed, the exchange rate has no influence whatever on trade and production. The point is of great practical importance because it may be imagined that the countries whose currencies are highly depreciated cannot recover so long as the pre-war gold parity is not attained. The adjustment of internal prices in response to the exchange rate is of greater force among the European countries which are not at all self-sufficient and therefore in whose economic life foreign goods, both raw and finished, enter on a much larger scale than in other countries. It is evident that the greater the foreign trade of a country the greater will be the ease with which the evils of a depreciated currency can be obviated by accepting the depreciation to a large extent, and stabilising at that. If the depreciation be great and if yet the currency be decided to be retained, the best method will be to stop further depreciation, or for the matter of that, further fluctuation, by stabilising at that point, and linking the standard, so hopelessly debased, with a new standard, which will supersede the depreciated one as the full legal tender. This latter will be a token coin and be linked, in its turn, with gold in the exchange standard. The attempt, therefore, of Germany for having the Boden-mark or Thaler is in the right direction.

(5) *Its possibilities of development.*

Some of the possibilities of expansion of the gold exchange standard have been incidentally noted in the foregoing discussion of its underlying principles. Here I may conveniently state them together.

(1) The central bank in each country will do the work on behalf of the Governments of the different countries. This will considerably reduce the cost of maintaining the reserves, and the publication of the reserve accounts separately will materially help to inspire confidence. When the working of the system has developed, and it has reached the end of the initial stage, a further development will be in the establishment of an international clearing house of these banks, first to square the reserve accounts and then to settle international bill debts in one country against credits in another. Thus even the international movement of gold on Government account to encash exchange bills or secure gold will be obviated to a large extent.

(2) The banks will have international accounts. These will be credited or debited against gold held at any of the central banks doing exchange business on behalf of the various countries. Through the international clearing house the total reserves of any country held in all the countries will be unified and therefore more effectively used than they could be if each reserve were separate and unconnected with the others.

(3) Thus gold reserves need not be held in all the different centres with which a country has dealings. These may be built up only at convenient centres, or

even at one centre, and credit obtained, through the central banking organisation, in other countries where a country has no gold. For example, in Europe, London may theoretically be the only centre of international gold reserve.

(4) The clearing house system, starting with the exchange operations in the gold exchange standard, may be extended to other operations of the central banks. This will be only an extension of the system which had already been working to some extent in Europe before the War. But the solidarity of interest, as developed through the exchange reserve system with international guarantee, is bound to reflect upon the efficiency and ease with which other operations of the central banks than exchange ones can be carried on.

(5) The unification of the reserves of each country, and the international guarantee will necessarily secure for a country better credit in the world market. Gradually, through the same system, and on the basis of the reserves, an entirely new credit system may be organised. Like the fiduciary portion of the note issue in the home currency, international credit papers may be issued, which will have as free circulation in the international market as the best of securities. Such an issue will be of a much later date, but there is no reason why it should not succeed if, through the central banks, these credit papers are issued on purely business principles, and if their issue be properly safeguarded by an international agreement on the principle, for example, of the English Bank Charter Act; or, on a more elastic basis like that in Germany or America with a high penalty for any excess issue; or, on a combination of the two principles; that is, elasticity on payment of a penalty up to a certain amount, beyond which, like the English system, there shall be no further fiduciary issue.

(6) Finally, through the same organisation international borrowing may be facilitated. This borrowing may be either in the form of loans or merely credit accommodations. That is, it may be either a regular loan, or, like the Treasury bills at home, temporary only. In the latter case, in the beginning at least, the floating debt should be kept within a statutory limit.

(6) *Conclusion.*

Therefore, my conclusion is that the gold exchange standard should be retained for India, because it is the cheapest and the most effective currency, and therefore especially suitable for poor countries.

III.—Improvements in the Existing Machinery.

The main points under this head have been dealt with incidentally under II. It requires to be emphasised here that in the case of India it is necessary rigidly to separate the exchange reserve from the currency reserve. In order to have the automatic operation of the managed currency that obtains in India, this separation is vital. It exists in a way so far as the Gold Standard Reserve in London is concerned. But in India the resources are too much mixed up with the currency reserve and the general balances of the Government of India. The automatic operation implies that in case of an adverse balance of trade the home currency should contract and foreign currency expand. In the case of India the foreign currency expands by the Secretary of State meeting the reverse council bills drawn by the Government of India; this statement applies so far as these bills are met out of the gold reserve. But the home currency does not necessarily contract, for there is no law by which the Government of India is compelled to hold back the sale proceeds of the reverse council bills till they are required to meet the council bills drawn by the Secretary of State in case of a favourable balance of trade.

I would, therefore, suggest that an exchange reserve be set up in India also, the use of which should be confined to exchange purposes only by Statute. This reserve should have nothing to do with the currency reserve except through an account system like the relation between the issuing and the banking departments of the Bank of England. The function of this reserve should be twofold, viz., (1) sale and encashment of council bills and reverse council bills, and (2) sale and purchase of bullion required for exchange purposes.

IV.—Fixation of the Rate of Exchange.

This question resolves itself into two or probably three. The first is the question of fixing the Indian currency in terms of some thing which is more stable than the sterling has proved to be in the crisis of the last War. The second is the

question of fixing a rate now, that is, whether the present time is opportune for permanently fixing a rate. The third question arises out of the second, that is, to find out the mistake of 1920-21.

(1) *With what should the rupee be linked?*

The sterling was formerly equivalent to gold, so that when the rate of Indian exchange was originally fixed it was really in terms of gold. Now that gold and sterling have diverged in value and may again do so in case another crisis like the late War intervenes, what should India do? I think that on this point both the majority and minority reports of the Babington-Smith Commission concur. The rupee, if it is to be linked with anything, ought to be linked with gold which is stable in value throughout the world, and not with sterling which has different value in terms of different currencies of the world and varies constantly even at that. When it is decided to link the rupee with gold, a further question arises as to whether, linking the rupee with gold, India should continue to have sterling bills for controlling the rate or whether it should have gold bills; in other words, whether India should draw its council and reverse council bills in gold or sterling?

The exchange rate may be maintained in two ways. It may be maintained by sticking to sterling in the bills; or sterling may be abandoned as in the rate, and gold substituted in the bills. If the former method be adopted the rate for council bills would be the sterling rate *plus* the depreciation in sterling *plus* the cost of transmitting gold from England to India, and that for reverse council bills would be the sterling rate *plus* the sterling depreciation *minus* the cost of transmitting gold from India to England. This method does not obviously eliminate or control the uncertain factor, the pound sterling. Since 1920 the Government of India is pursuing this policy. But it seems to be at least anomalous to fix the rate in gold and to attempt to maintain it in sterling. If the rate be accepted in gold, the international medium, why fix the rate of bills in sterling, the currency of one country, that varies in its relation to the currencies of other countries? This method could have been rational if India's foreign trade were confined only to the United Kingdom. But as that is not so, India, by this method, is made dependent upon the English cross rate with all the other countries, so that in making its payments to, say, France or Italy or Japan, India has to follow the sterling-franc, sterling-lire, and sterling-yen cross rate. If not anything else, the system at least becomes more complex than a flat rate in gold with easy calculation of the rate with another country by finding out the depreciation of the foreign currency in terms of gold.

On the other hand, if the gold rate be adopted for the bills issued by Government to maintain the exchange rate, there would accrue certain advantages to both India and England. Such a rate would be maintained with gold at par ± the cost of transmitting specie. Such gold bills sent from India in payment, say, for the imports of English goods would increase the supply of gold bills in London and raise the dollar value of sterling. This is an advantage for India as well as for England. This also means some Indian control of the gold-sterling (dollar-sterling) cross rate upon which India has become dependent and thereby help India to stabilise the gold-sterling (i.e., rupee, fixed in gold, and sterling) rate of the Indian exchange.

In this connection it is well to consider whether there would be any diversion of India's import trade with the United Kingdom; this question is relevant because now a system of Imperial preference within the British Empire is being favoured in some quarters. Even if this gold bill system stimulated American imports into India at the expense of imports from the United Kingdom, it would have been advisable to adopt it because (1) the dangers from an anomalous exchange to a country are very great and should be avoided at any cost, and (2) the effect of the rate of exchange on trade and production is always temporary. But I think that India or the Empire runs no such risk of being flooded with American goods coming merely as a result of gold bills, apart from other and general forces already operating in that direction; that is, those internal causes which have made English products too uncertain as to their price and as to the time of their delivery. The difference between the gold prices in the United Kingdom and in the United States is very slight. Even this slight advantage in favour of America does not stand in final analysis since the cost of transport from America to India is much greater than the cost of transport from the United Kingdom to India; and, notwithstanding the American effort to increase its merchant marine, it is expected to remain so for a long time. In any case this method of gold bills cannot penalise English exports to India so long as the sterling depreciation in the U.S.A.

cross rate is not greater than the sterling depreciation in the Indian rate. When the pound sterling recovers its gold value, which it has almost done, it will be at or about par in the American Exchange but about 33 per cent. lower than the former Indian par (if the 2*s*. rate be made the basis for calculation). If the rate be fixed at any other point, the temporary effect will be disturbing to the extent that the rate diverges from the market rate.

If the cause of the gold bill be so strong as I have represented it to be, every effort should be made to convert our sterling bills into gold bills. With a gold exchange system India should attempt to come up to a gold bill system; and the sooner this is done the better for all the parties concerned in the Indian exchange rate.

(2) *What was the mistake in* 1920-1?

For this purpose it is necessary to recapitulate the history of the rupee. Since 1835 the rupee has been practically the sole legal tender and up to 1893 it was a free coin. But owing to the continued depreciation of silver during the second half of the nineteenth century (in 1844 it was 59½*d*. per ounce, in 1889 it was 42*d*.), the rupee could no longer be considered as the equivalent of 2*s*., the rate at which it was usually convertible into gold. This conversion was, of course, dependent upon the market rate of gold and silver; the Rs. 10 of those days was roughly the pound sterling. The rupee was at this time a free coin and sterling was not recognised as the legal tender in India. Thus the relative value of gold and silver in the exchange rate depended upon the fluctuation of their relative value as bullion in the world market. Silver depreciation, therefore, brought about violent fluctuations in the rate of exchange, and all interests—imports, exports, home charges, etc.—grew nervous at this uncertainty. A general desire for stabilising the external value of the rupee was manifest in India. The proposals for international bimetallism failed at the international monetary conferences of 1878 and 1881, as also the proposal of the United States at the monetary conference of 1892 to " increase the use of silver as money in the currency systems of nations " for the purpose of retarding the fall of silver by creating a demand for it among the nations of the world. Thus it began to be insisted in India that either the rate should be controlled or gold should be introduced as the circulating medium. It was found at the time that gold was unsuitable for India as currency. Thus the problem was how to keep the rupee as the internal currency and at the same time to have a steady exchange rate with gold-using countries, that is, the countries with which the major portion of India's foreign transactions were carried on. In this way what is known as the gold exchange standard was evolved. To secure this, one method was to reduce the rupee to a token coin and consequently stop its free coinage, so that the normal fluctuations in the relative value of gold and silver would not be able to affect the exchange rate or the money value of the rupee. The alternative was to introduce permanent Government control of the export and import of gold and silver to keep up an artificial rate between the two metals in India different from that in the world market, thus penalising all uses of silver in India other than for currency. A token rupee could evidently be maintained as long as the gold price of silver did not rise so high as to reduce wholly the margin created by making the rupee token. Now this object of having a token rupee might have been secured by either of two ways. The rupee might have been debased, that is, its silver contents might have been reduced. Or, the exchange rate might have been fixed at a point at which the value of the silver contents of the rupee would be permanently lower than its face value in gold. The latter method was adopted in 1893 and the exchange rate was fixed at 1*s*. 4*d*. to the rupee.

In this system the obvious defect was that when gold was excluded from circulation but retained in exchange, the rate could not be restricted within the specie points since gold would not be easily available in India for purposes of external payment. The upper limit to the exchange rate set by the higher specie point, that is, the gold import point, could not rise because (1) Europe, working for India through the London money market, was a free market for gold, and (2) such a rise might easily be prevented by sales of council bills by the Secretary of State at London. But the difficulty was about the lower specie point, that is, the gold export point. If gold were not easily available in India for purposes of foreign payment, the rate might go down below the specie point, that is, gold might run up and be at a premium; in which case the gold exchange standard itself would break down. Of course, this danger was neither continuous nor very great in extent inasmuch as India maintained, as it still maintains, not only a favourable balance of trade but also a favourable balance of indebtedness; this

balance is to the extent of India's gold imports and the gold reserve built up in London by selling council bills in excess of the requirements of the Secretary of State. Yet for the contingency provision had to be made. Hence the Government of India undertook, although it was not legally bound to undertake, to supply gold for external payments in times of unfavourable debt balance. As all the external financial transactions of India, as of many other countries, used to be carried on through the London money market, it was considered more convenient to hold the gold reserve of India at London, so that when the exchange rate tended to fall below the specie point, the Government, instead of giving actual gold for foreign remittance, would give the equivalent of gold by offering reverse council bills on London. The great advantage of this system is that it obviates unnecessary movements of gold to and from India, and, by the sale of council bills at the higher specie point and that of reverse council bills at the lower specie point, leaves to India a profit of about double the cost of transmitting specie. Even if the sale of reverse council bills be not necessary the gold standard reserve as indeed all Indian gold reserves at London is built up cheaply, that is, at the higher specie point, since council bills in excess of the Secretary of State's requirements are drawn at a favourable rate by offering council bills at the proper time of the year, that is, whenever the rate tends to exceed the higher limit.

Thus it will be seen that (1) the rupee was not tampered with in 1893 when it was reduced to a token coin; and since 1835 it has been the standard not only as coin but also as to its weight and fineness throughout the whole of India; and (2) the exchange rate was in reality fixed in gold as in those days sterling meant immediate gold; and reverse council bills, meant to support the rate at the bottom, were drawn also in gold, that is, sterling

In 1899 the pound sterling was made legal tender in India at Rs. 15 with a view to the eventual introduction of gold as the currency of India displacing gradually the silver rupee. I need not now enter into the question, but for good or for evil the scheme of introducting gold as our currency was abandoned, perhaps within a few years of the recommendation of the Fowler Commission. Since then our system definitely became the gold exchange standard and not as before a prospective gold standard. This system was supported by the Chamberlain Commission with certain modifications about gold coinage in India, which did not affect the principle of the system.

The gold exchange standard worked admirably well in India till 1914 as if the standard were of gold but at a considerably less cost to the country. Then came the War followed by an unprecedented rise in the price of silver and depreciation of the pound sterling which, for external purposes, is no longer convertible into gold. With all this India's troubles began. During the War, however, they were managed by India's purchases of more than 200 million ounces of silver from the United States at controlled price and by the official fixation of the dollar-sterling rate at 4·76½, that is, only 10 cents. below par. The control on the cross rate was removed by the Government of the United States on the 20th March, 1919, and that on the price of silver a few weeks later. Immediately the crisis in our exchange became manifest. The special features of the crisis may be said to be mainly three, viz., (1) sudden and unprecedented rise in the price of silver, (2) divergence of the pound sterling from gold, and (3) influence of the London-New York cross rate upon Indian exchange.

(1) The price of silver rose very much owing to world causes. These were: signs of exhaustion of the Canadian mines, political unrest in many of the South American States, especially Bolivia and Mexico, and demand in Europe and other countries for silver to substitute for gold. Hence the margin obtained for the rupee as a token coin was not only swept away but the rupee was reduced to much less than the worth of its silver contents. This meant that instead of being appreciated in currency, silver became appreciated as bullion and depreciated as currency in India. Thus the rupee coin in circulation was threatened.

(2) To make our position worse sterling simultaneously declined. As our exchange was linked with sterling, its depreciation in terms of gold meant a rise in silver even when its price in gold, i.e., dollar, was unaffected.

(3) New York tended to become temporarily the monetary centre of the world, the position so long held by London. As gold could be freely obtained only in the United States, the English debt balance to that country determined the extent of sterling depreciation; that is, the dollar-sterling rate was the only gold-sterling rate in the world. Moreover, the United States market was the great controller of the price of silver, so that the price of silver in sterling, the

currency in which the Indian exchange rate was fixed, was dominated by the dollar price of silver and the extent of sterling depreciation as measured in dollar. As the sterling price of silver affected the Indian rate by affecting the token character of the rupee, the United States cross rate was destined to dominate the Indian rate so long as sterling was not the equivalent of gold and so long as the price of silver was not steadied. Therefore, the Indian rate was moving up with every depreciation of sterling, since, to prevent a very great rise in our rate, it was being fixed at a point slightly higher that what was necessary to keep the rupee not as a token coin but as a coin worth its own metal.

There were two alternatives before the Babington-Smith Commission, viz., (1) to keep the rupee intact and therefore raise the rate, or (2) to keep the rate unaltered and therefore debase the rupee. Theoretically there was a third means also, viz., to control permanently the influx and efflux of gold and silver so that they would have in India an artificial value different from their world value, which would maintain the present rupee as a token coin, whereas the external exchange would be fixed at 1*s*. 4*d*. or indeed at any point by the complete Government control over all movements of specie. This obviously was impracticable and dangerous in principle.

It should be noted that neither of the above two alternatives should be taken as faultless, but we have to strike a balance between the advantages and disadvantages of each, and ascertain which of them would, on the whole, have conferred greater benefits on India, always of course keeping in mind the then existing economic conditions of the world. To take first the second alternative, viz., the exchange rate of 1*s*. 4*d*. with the debasement of the rupee coin. Its great advantage was that Indian exports would be stimulated, especially in view of the enormous rise in prices in all the countries of Europe; at the old rate of exchange India was sure to have an unprecedented expansion of its export trade. This would naturally have tended to raise the exchange rate and thereby help India to build up a hugh reserve in sterling at London or lead to an influx of gold into India if it were available in the countries to which India would export. The negative argument in support of the old rate was that a rise in exchange will penalise India's exports, but this could be so only when the rise in exchange was greater than the rise in the price level in India's exporting markets. Another argument was that if, in this way, the gold were reduced in value, those who had hoarded gold would be penalised.

The most important factor involved in this method was that the rupee would have to be debased, that is, its silver contents would have to be reduced. Against this there were two objections, one economic and the other socio-economic or quasi-political. The first was that when the debased rupee would be introduced the present rupee would surely go out of circulation; this meant that the whole of the coined rupees must be replaced and that also within a very short period since the existing rupee at 1*s*. 4*d*. would be highly profitable when sold as bullion. In a country like India where coin has a charm all its own, it was bound to lead to a severe shock to the credit of the State, and the same difficulties as had been experienced during the first eight or nine months after the outbreak of the War might have been accentuated. This shock might be fatal to the success of the new currency, however sound it might otherwise be. Secondly, the rupee, as the majority report pertinently pointed out, has been well known in India for generations. It is accepted even in the villages as the standard of weight and fineness and it is the basis of many daily transactions which have nothing to do with money as such. All this would have been disturbed and the masses might grow highly suspicious of Government methods in general. Theoretically the debasement does not in itself mean much, but if a token coin or paper money be a credit instrument, its prospect is bound to suffer materially if it does not take into calculation the prejudices of the masses who are to use it; and in India currency prejudices are by no means confined only to the illiterate. At a time when the public mind was in a highly disturbed condition for various reasons, it would have been inviting a breakdown of the currency system if the rupee were debased. This I would call the socio-economic or quasi-political danger from debasement.

Another argument in support of the 1*s*. 4*d*. rate and debased rupee was that one cannot change the legal rate without some discredit. This is true, but one should accept the lesser of the two evils. A change in the rate is to be compared with a change in the silver contents of the rupee. The latter would affect the vast majority of the people, and would introduce a change never before experienced during the long career of the rupee for more than eighty years. On the other

hand, the exchange rate was unfixed till 1893, before which, for a time, it fluctuated like the movements of a shuttle-cock, and continued unsteady for several years after the rate had been fixed. During the war there was unsettlement of so many things, and the exchange rate was changed many times since January, 1917, when it was raised to 1*s.* 4¼*d.* As the exchange rate deals with India's foreign trade, if a change were inevitable as a result of external causes, the shock should be made to come on that rate instead of the internal currency, which has nothing to do with exchange as such. Moreover, the community, which is affected by the rate, ought to be less guided by such sentimental reasons, because it is expected to understand the reasons of exchange fluctuations. Further, it is accustomed to minor variations of the rate within the specie points, whereas the weight and fineness of the rupee are considered unalterable.

Apart from sentiment, which is not negligible in currency affairs, there was that economic argument against raising the exchange rate, *viz.*, its adverse effect upon the export trade. So I shall examine this point in some detail. It is certain that raising the rate would not have entailed a net loss to the exporter so long as this rise was less than the rise in the prices of the market to which India exported. Hence a discussion of the topic that does not take into account the price level of the foreign markets is one-sided and misleading. Therefore, I shall first of all give the figures of the wholesale prices in the important countries, taking an average of the prices of all the important articles. Taking 1913 as the standard or basic year the index numbers are as follows :

Countries.	Index Numbers.	1919.
France	330·0	June.
Italy	329·9	April.
Japan	214·0	May.
Sweden	339·0	April.
United Kingdom	257·2	August.
United States	206·0	May.

The temporary effect on India's export trade can be measured by comparing the percentage increase in the new exchange rate (2*s.* gold) and the extent of sterling depreciation on the one hand and the percentage increase in the price level of the foreign countries. I may illustrate the point thus: Let the rupee be equal to 2*s.* 6*d.*, assuming that 2*s.* gold was equivalent to 2*s.* 6*d.* in sterling. At this rate goods worth £100 in 1913 could in 1920 be exported from India at Rs. 800, neglecting for the present the increase in the cost of transportation. In 1913 at 1*s.* 4*d.* they would have fetched Rs. 1,500; thus there would be a loss of Rs. 700 to the exporter. But the price of goods worth £100 in 1913 was now £257 4*s.*, by which an additional amount of £157 4*s.* would come to the exporter; this in rupees would be more than 1,257 according to the new rate of exchange. From this deduct Rs. 700, the loss by high exchange; this leaves a net additional profit of Rs. 557. The item so far neglected is the cost of transportation, the *increase* in which must be deducted from Rs. 557 in order to find the net additional gain on the whole transaction. When sterling further moved towards gold the position of the exporter would become more favourable. In 1919 when the Commission reported, sterling prices in the United Kingdom and prices in general in the European countries were mounting up.

The above calculation is on the supposition that there was no special demand for Indian goods in the European markets. But when we consider the fact that Europe's demand for most of India's exports was inelastic just before the war, the position of the exporter was naturally taken to be very strong. The facts which were incontrovertible in 1920 are as follows: In Europe then there was a great demand for foodstuffs, which formed about 25 per cent. of India's exports. Jute, raw and manufactured, was another commodity in a similar position, and it also formed about 25 per cent. of India's exports. Cotton export was about 20 per cent., and so long as the American exchange remained in favour of that country, Indian cotton could not be expected to fall in demand. Tea formed about 8 per cent. of our exports, and its position was considered by the trade itself to be absolutely secure. Hides and skins, raw and manufactured, and leather came up to about 8 per cent.; it was a mistake, but from the fact that a special export duty —what I may call the experimental Protective-*cum*-preferential tariff—had been imposed upon the raw variety, one was justified to presume that its foreign market was considered to be safe. These were all the important items in India's export trade, and they could legitimately be considered to be in no danger of falling off

in demand. So that the European price, even if it had not otherwise been favourable to the Indian exporter, as shown above, could not have been taken to bring any loss to him, since his capacity to push up prices was maintained in the prevailing circumstances of the European countries in 1919-20.

It must, however, be remembered that all the above calculations rested on the assumption that an inelastic demand leading to a high price level would be maintained for some time in Europe, so that enough time would be left for Indian prices to adjust themselves to the new forces. After this internal adjustment there could, of course, be no effect of the exchange rate upon the trade and production of the country. Thus the crux of the whole thing lay in the then existing high prices in Europe. All experts said that they would remain so for a period much longer than what India would require for adjustment within itself. But we, who are now wiser after the event, know that prices began steadily to fall from 1921. The main reason is, of course, the vicious circle created by the treaty of Versailles, by which huge reparations are to be paid by the enemy countries at the same time that their exports are to be prohibited from entering the allied countries. The breakdown of credit and the blind opposition to its rebuilding considerably reduced the purchasing power of all the European countries. Thus, we have now for six years the spectacle of immense sufferings of millions of human beings for want of the necessaries of life, while the same necessaries are glutting the markets of India, Japan, and the United States; partially also of the United Kingdom. The economic solidarity of the world is more inexorable than the dictates of the Big Three at the peace conferences. The result is that the problem has become acute for the exporting countries outside Europe as it is for the non-consuming countries of Central and Eastern Europe. The note of warning was early raised by the English economic expert at the Paris conference, but it was in vain. With circumstances as such it could hardly be expected that the Babington-Smith Commission would anticipate the obvious follies into which the victorious countries of Europe drifted. In India the boom of companies in 1919-20 shows that a fall in prices was not only not expected, but a contrary process was confidently anticipated. Thus for the miscalculation nobody in 1919-20 could be held responsible.

Another disadvantage of the 1*s*. 4*d*. rate was that the price of imported articles would have risen immediately to the full extent of the rise in the foreign countries. The Indian public were already bitterly resenting high prices, and the Government, as well as many public men, were of opinion that a further rise might lead to disastrous consequences. This in itself was an advantage of the high rate fixed in 1919-20. Moreover, this helped the payment of the home charges as also that for the purchase of machinery, &c., for India's nascent industries, which had received a strong stimulus during the last years of the war and the period just following the armistice. On the other hand, it must be acknowledged that the attempt permanently to fix the new exchange rate by legislation at a time when there was the utmost disorder in the business organisations of the world was not only premature, but proves the want of that grasp of exchange principles for which the India Office was famous during the life-time of Sir Lionel Abrahams.

Thus it will be seen that the mistake of 1920-21 was two-fold, *viz.*, (1) in ascertaining the circumstances in regard to future prices, which were likely to be permanent, out of a changing mass of circumstances which were further complicated by the foolish economic provisions of the treaty of Versailles, and (2) in ascertaining the proper rate of exchange, which, in view of the gold price of silver, could be maintained by the Government. I do not consider the sale of reverse council bills in 1920-21 as a mistake in itself. I believe that at the current rate of exchange the Government would have to do the same again if the sterling price of silver went up to 50*d*. per ounce. The alternative would be to lose all our silver rupees and half-rupees.

(3) *Is the present time opportune?*

In view of the above facts it will be seen that the disturbing factors practically remain the same as in 1920. The economic provisions of the Versailles Treaty remain intact, so that Central Europe cannot offer a good market for the extra-European countries. Therefore, the course of prices in the world is yet uncertain, and little can be guessed about it when the old economic solidarity of the world will be restored. The currency system of Europe except the United Kingdom is uncertain and violently fluctuating. Therefore, it is futile to attempt to stabilise Indian exchange. For in exchange there are two currencies

involved, and it is impossible to stabilise the rate so long as one item remains hopelessly unfixed. The fluctuation is only a little minimised by the stability of the sterling and the dollar. Arbitrage operations are an important factor in foreign exchange although they are now regulated by most of the Governments of Europe. Therefore, so long as European currencies are unstable the rate of Indian exchange must be uncertain also, for the rate is fixed through the marginal transactions, and these depend upon arbitrage operations.

Therefore, I would recommend that no rate should be prematurely fixed now. Otherwise the mistake in principle made in 1920 will be surely repeated. The great evil of repeating the mistake lies in the temporary unsettlement of the trade and production of the country as explained under I.

V.—SUGGESTIONS.

My suggestions, therefore, are that the present Commission should—

(1) affirm the principle of the gold exchange standard and accept it finally as the currency system of India;

(2) declare that the Indian rate should be fixed in terms of gold and not in terms of sterling or the currency of any other country;

(3) recommend the desirability of building up a big gold reserve ear-marked for exchange purposes, which should be rigidly separated from all other reserves, especially the currency reserve; and

(4) declare that is premature to fix the actual rate of exchange, and, therefore, desist from doing so, and recommend that another Currency Commission should be appointed to do that when greater stability is attained in the currency systems of the European countries.

APPENDIX 13.

Statement of evidence submitted by Mr. H. L. Chablani, M.A., Head of the Economics Department, University of Delhi.

Question 1.—Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise? What is the comparative importance of stability in internal prices and in foreign exchanges? What are the effects of a rising and a falling rupee and of a stability of high or low rupee on trade and industry including agriculture and on national finance.

Answer.—In my opinion, it is premature to stabilise the rupee at any fixed rate in terms of *gold* at the present moment; Government ought to profit by the mistakes committed in 1920. The future trend of gold prices in the world is yet uncertain. Only recently Sir John Fergusson in his inaugural address as President of the Institute of Bankers held the view that taking a long view of the situation, we might expect a *downward trend in prices*, that is a rise in the value of gold. He advanced two main reasons for his opinion. The first was that "monetary reconstruction in the world must inevitably lead to a greater demand for gold by central banks and Governments; the redistribution of America's superfluous stock of gold over the world should certainly tend to cause a rise in the value of the metal. Secondly, the introduction of mechanical aids to production, the cheapening of industrial process, must expand the volume of wealth, and this factor acting on the demand side of the equation of value, should also tend to make for an appreciation in the value of gold." As against this view, it is plausibly suggested that America has in reality demonetised gold, and that if the influx of gold to the United States had been allowed to play its normal function of expanding credit, the purchasing power of gold would be far lower than it is at present. The output of gold, which is again approaching the high levels reached between 1908 and 1916, and the ever increasing use of substitutes for gold as a medium of exchange throughout the world, are also important factors tending in the opinion of some to effectively oppose the tendency to a fall of *gold* prices. Much will depend upon the possibility of co-operative action by the Central Banks contemplated by the Geneva Conference Resolutions. The stock of gold held by the Central Banks of the world is so large compared to the annual consumption for non-monetary purpose, that it is quite possible for them to regulate by agreement among themselves the value of gold. But if the Central Banks *compete* with one another in their efforts to accumulate as large stocks of gold as possible in

order to restore the gold standard, the value of gold is bound to *go up*. Though at present, outside United States, there is little gold in actual circulation, one cannot take for granted that there will be no reversion to an actual gold circulation anywhere in the world and that this will not make too severe a demand on the world's stock of gold. The accumulation of gold in United States is so large and that country occupies such a commanding position in the world to-day, that by slightly altering their monetary policy it can keep its general level of prices higher or lower and thereby give gold a lower or higher value; and there is no certainty as to what policy that country will follow from time to time. As one of the critics of the restoration of gold standard in England put it, there is no guarantee that the present Federal Reserve Board will remain in office or that the inflationist party which has always been very active in the United States will not at any time overthrow the present policy of price stabilisation, and raise a cry for a more liberal use of the hoarded stores of gold which will lead to a large expansion of credit and a violent rise of prices in America. Personally I am inclined to believe with Prof. Cassel that for the future we must reckon with a growing scarcity of gold (*vide* his paper read before the institute of Bankers on June 11th, 1924). It will, however, be unsafe to dogmatise on the subject when the factors to be considered are so uncertain. It is necessary, therefore, to be extremely cautious in the matter, and avoid making experiments with currency every now and then. If Government decides at the present moment to fix the value of the rupee at 1*s*. 4*d*. *gold*, more currency will have to be put in circulation and prices will tend to rise, much to the detriment of at least a section of the community. If a year later, gold prices in the world fall, it will be necessary to deflate the currency to maintain the gold values of the rupee at 1*s*. 4*d*. If, on the other hand, the rupee is to-day stabilised in the neighbourhood of its present market value in *gold*, and gold prices begin to fall to such an extent as to bring down the gold value of the rupee to even less than 1*s*. 4*d*. gold, the country in order to maintain the rupee at 1*s*. 6*d*. gold rate, will have to submit to drastic deflation which will raise a howl of protest among the business community.

The only feasible course at the present moment is to fix the upper and lower *gold* value of the rupee in such a way as to leave some discretion to the authorities. I believe that the authorities can without any very great risk announce that they will use all their resources to keep the rupee between 1*s*. 4*d*. *gold* and 1*s*. 6*d*. *gold*. Curiously enough, while the Finance Member told the Indian Merchants' Chamber (3rd July 1925) that it was the definite intention of the Government of India not to allow the rupee to rise above 1*s*. 6*d*. *gold*, he made no announcement that the rupee will in no circumstances be allowed to fall below 1*s*. 4*d*. *gold*. It is far more important to fix the minimum gold value of the rupee than the maximum.

While I am in favour of stabilising the *gold* value of the rupee, I am on principle opposed to any measures being taken to stabilise the rupee-*sterling* exchange at any fixed level. I consider it a mistake to link the maintenance of the Indian standard of value with the incidental and varying circumstances of exchange. I agree with the view endorsed by the Babington-Smith Committee that "exchange stability is an important facility rather than an essential condition." I regard instability of foreign exchanges as a sympton of a disease rather than the disease itself. The real diseases in the world are political insecurity, chaotic finance and uncertain currency policy. As these maladies are being attended to and gold standard gradually restored among the trading nations of the world, exchange fluctuations will gradually be reduced to such dimensions as would induce banks to supply the machinery which will enable the merchant to cover his risks. Stability of exchange is an international and not a national problem. It is not in the power of any country to stabilise its exchange with other countries, when the commodity values are constantly changing because of deflation in some countries and inflation in others. Even if exchange stability is attained between any two countries or even a group of countries, it cannot bind up a stable international commerce while exchange on other important countries continues to fluctuate, for the markets of the former would be subject to constant exchange dumping on the part of the inflationist countries. Stabilisation of exchanges must be general or it is useless.

Apart from these objections on principle, the time is not yet propitious for fixing the rupee-sterling exchanges at a particular level. There is still a certain maladjustment between sterling and gold prices. Since January last, sterling prices have shown a downward trend. Probably the fall would have been more pronounced, but for the budgetary deficit of £36 million for the first half of the financial year, and the embargo on foreign loans. If exchange were stabilised

to-day at 1s. 6d., and sterling prices continue to fall at a quicker rate, Government will either have to allow the rupee-sterling exchange to fall or produce acute financial stringency by a policy of deflation, The only wise course in the present circumstances is for each country to take care of its own standard of value and inspire general confidence in its comparative stability in terms of gold, if not in its general purchasing power.

Even from the narrow point of view of exchange stability, the best remedy is the restoration of an effective, automatic gold standard in most of the countries of the world. Such wide exchange fluctuations as we have been witnessing since the war are due to divergences between international price-levels; and divergent price-level movements as between gold standard countries are impossible except within very narrow limits.

Even an automatic gold standard is open to the objection that it is wanting in stability of purchasing power. Theorists like Dr. Fisher, Prof Marshall and Mr. Keynes have suggested far better monetary standards from this point of view; but the greatest difficulties in the way is the distrust of the public in all schemes that are too scientific to be easily understood, or that involve Government management of any kind. And trust and confidence are the very essence of the matter in currency problems.

The fear that gold may in the next few years prove even more unstable in purchasing power than before the war and that prices may fall to such an extent as to kill all enterprise, led some currency experts of international repute to suggest an international gold exchange standard for the world as a whole; and the International Conference at Geneva actually passed a resolution in favour of "some means of economising the use of gold by maintaining reserves in the form of foreign balances, such for example as the gold-exchange system or international gold-exchange system." These new schemes of an international gold exchange standards differ in some respects from our pre-war Indian Currency system. In the first place, there is no talk of any attempt to prevent a *rise* in the exchange of any country participating in the system. As one of its advocates explains "the Bank can hardly be obliged to take measures against a *rise,* the sign of depreciation of the foreign valuta, although it will quite naturally contribute a little to the restoration of a rising exchange as a prominent purchaser in the market. Even in countries with a metallic currency system, neither Government nor the Board of the Bank have even been either legally or even morally obliged to guarantee industrial life against possible depreciation of foreign valutas." (C. A Verrijn Stuart in the *Economic Journal*, March, 1919). The only instance of such a guarantee is the voluntary practice of the Secretary of State of preventing a *rise* in the sterling value of the rupee by selling Council Drafts at fixed rates in *unlimited amounts*. Secondly, these new schemes all insist on a *direct limitation* on the quantity of legal tender money within the country. Thirdly, the advocates of the proposed system recognise that the currency policy is ultimately credit policy, and that the co-operation of the central banks of the participating countries is an essential condition in the problem. Lastly, these schemes aim at regulating credit "not only with a view to maintaining the currencies at par with another, but also with a view to preventing undue *fluctuations in the purchasing power of gold*" (*vide* resolution No. 11 Geneva Conference). In other words these schemes imply (*a*) international co-operation; (*b*) a policy of stabilising prices through the action of Central Banks, on the basis of an index number; and (*c*) a policy of economising gold in internal circulation.

If the Indian system is modified along these lines, almost all the objections against it disappear. Such a scheme will secure stabilisation both of prices and exchanges. But the crucial questions are: Is it possible to have a binding international agreement in these matters? Is it practicable to regulate, not only the legal tender currency, but also the market rate of discount or the rate of interest by the use of an index number of prices? Is the public sufficiently educated to have confidence in such a reform? Will the controlling authority command public confidence? There is nothing inherently impossible in such a scheme, but the practical difficulties seem almost insurmountable.

We must therefore be content with something less satisfactory but more feasible. The main object to be aimed at should be to ensure the automatic expansion and contraction of our currency and link it with a commodity that is comparatively stable in value. For this it is enough to have a convertible rupee, convertible not in gold coins, but *gold* bullion only. The stabilisation of the rupee in terms of gold will give us such stability of prices as is possible under an effective and automatic gold standard. What the country as a *whole* requires

is stability in internal prices more than in foreign exchanges. If owing to external causes beyond our control, this stability in internal prices does not give us stability of exchanges, I would leave the exchanges to their own fate.

As regards the effects of a rising or a falling rupee on trade and industry, I have nothing to add to what Professor Marshall said before the Fowler Committee. Other things remaining the same, a depreciating currency or a falling exchange tends to stimulate exports and discourage imports. But the advantage to the exporter is largely at the expense of the other classes of the community and can be only temporary. The common opinion that a depreciating exchange was for the benefit of an export trade, rests on the natural habit of regarding the interests of the *Eutrepreneur* as co-extensive with those of the trade. What really happens when a currency is depreciating, is that a person who is under obligations to make certain currency payments fixed by definite contracts or by custom is allowed through the change in the value of the currency, to discharge those obligations at less cost to himself and less benefit to those who were engaged with him in trade. There is no doubt that a fall in the value of the currency is a bounty; but it is a bounty not to the export trade but to *one class* in the export trade at the expense of the other classes engaged in it. Just the opposite is the effect of an appreciating currency.

But these effects are only temporary. The depreciating rupee is advantageous to exporters only so long as the cost of production and prices in India do not rise in terms of rupees. When that happens the bounty will disappear. In other words, there is a race between the specific depreciation of the rupee in terms of sterling and its general depreciation in terms of commodities and services. Exports will be stimulated only so long as the specific depreciation is greater than the general depreciation. As regards National finance, the effect differs in different cases. The sterling obligation of the Government of India is really paid by the remittance of surplus *produce* from India, the magnitude of which depends upon the value for which the produce could be sold in the money obtained outside India. If the fall in exchange is due to a rise in the purchasing power of sterling, India will be obliged to *send a larger amount of produce* than formerly to meet its sterling obligations; and Government will have to resort to increased taxation in some form or other. Either there must be new taxes or the old taxes, must be made to command *more produce* by an artificial enhancement of the value of the rupee; in either case the final result is the same; there will be an increase of taxation of the people of India of an entirely unavoidable kind. If, on the other hand, sterling prices remain steady and the fall in exchange is due to *depreciation* in the purchasing power of the *rupee*, the *same* produce will be sent from India as before, though the Government may find that owing to the depreciation of its money its revenue is insufficient to obtain command of the produce required to meet its sterling liabilities. In this case what is lost by the Indian Government clearly amounts to a remission of taxation of equal amount to the people of India. The problem then is not how to increase taxation as compared with what was before, but how to make the taxation *equivalent* to what it was before.

Similarly if the rise in the rupee-sterling exchange is due to the depreciation of the purchasing power of sterling while the Indian rupee prices remain steady, India will part with *less of her produce* in discharge of its commitments abroad. On the other hand if the Indian exchange rises because rupee prices fall while sterling prices remain the same, the same amount of produce will be sent as before in discharge of external obligations. But so long as the Government revenue in rupees remains the same, it will command more produce than is needed by Government for the discharge of its liabilities abroad. In that case Government gains at the expense of the tax-payer who while giving nominally the same amount of rupees as before in reality parts with a greater purchasing power over goods.

But when once the amount of money realised from taxation has adjusted itself to the depreciation or appreciation of the internal monetary unit, Government will cease to lose or gain in the cases discussed above. For instance, when the tariff valuation of all the commodities paying Customs duties rises owing to the depreciation of the rupee, Government will realise more *rupees* from Customs. Similarly rising prices will mean rising incomes and the taxes on income will yield more. When business and profit are good because of rising prices, there may be a larger movement of goods than before and the railways earnings may go up. And if commercial undertakings like the railways increase their charges because of increase of prices and wages, Government gain rather

than lose. Of course in such a case taxes which are fixed for any length of time will not respond to the movements in price. But at least so far as the Government of India is concerned, most of its sources of revenue are not of this sort.

Q. 2.—In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

A.—The rupee should be stabilised in relation to gold, and the rate to be aimed at should be the pre-war one, viz., 1*s.* 4*d.* *gold.* The rupee and sterling prices have both risen nearly to the same extent since the war. Taking the year 1913 as the base, the index number of wholesale prices in Bombay advanced in June and July, 1925, to 160 and 158, respectively, while the index number of wholesale prices in the United Kingdom stood at 159 in May and at 158 in June last. It would appear then that the present market rate of 1*s.* 6*d.* is above the *normal* rate as determined by the purchasing power parity-theory, and can only be accounted for as temporary deviation from the normal rate due to favourable balance of account or some other temporary cause. A closer examination will, however, show that the assumption made by the exponents of the purchasing-power theory that the percentage difference between the internal and external purchasing power in 1913 is an approximately satisfactory correction for the disturbing effects of tariff, etc., etc., at the present time is not true in the case of India. Since the war our tariff has been considerably raised. This increased Indian tariff is an influence tending either to produce a higher level of prices in India or to decrease the value of sterling, the currency of the exporting country, in terms of the rupee, the currency of the importing country. I am inclined to think, therefore, that the difference between the pre-war and the present market rate represents the effect of changes in tariff and that the *normal* rate at present is in the neighbourhood of 1*s.* 6*d.* To bring it down to 1*s.* 4*d.* it will no doubt be necessary to raise prices in India to a higher level than in England. But that was exactly the object of recent protective policy and the expected result of a high tariff. Certain classes will no doubt suffer from such a policy; but, rightly or wrongly, the country as a whole consented to pay this price. And Government cannot be allowed to neutralise by its currency policy and the consequent rise in the *normal* rate of exchange to 1*s.* 6*d.* the intended effect of protectionist tariff. I, therefore, consider the 1*s.* 4*d.* gold rate as the proper rate to be maintained. The only question is, whether we should allow exchange to come down by a fall of gold prices or bring it down by raising prices in India. I am emphatically of opinion that the first is the proper course in view of the indications we at present have as to the trend of gold prices.

Sterling prices have been falling since December, 1924. According to the Statist during six months of this year the net decline in wholesale prices on the average has been as much as 11·2 per cent. (*Vide* Statist August 15th, 1925.) At no time since the great depression that began in 1920, did England experience so severe a contraction. If this tendency to a fall of prices continues, the normal rate of exchange will fall below the present market rate of 1*s.* 6*d.*; and it will be difficult for Government to maintain 1*s.* 6*d.* rate without further deflation of currency. It will be easier to maintain the pre-war rate between the rupee and gold. In these circumstances, the safest course for Government is to accumulate gold by offering rupees more freely at the rate in the neighbourhood of 1*s.* 6*d.*, with a view to be in a position to maintain at least the rate of 1*s.* 4*d.* gold both within the country and outside it. All that the Government should at present commit themselves to is to maintain the value of the rupee between 1*s.* 6*d.* and 1*s.* 4*d.* gold.

Q. 4.—What measures should be adopted to maintain the rupee at the rate selected?

Should the Gold Exchange system in force before the war be continued and with what modifications if any?

What should be the composition, size, location, and employment of a Gold Standard Reserve?

A.—The rupee should be declared convertible in *gold bullion* in India at the rate of 1*s.* 4*d.* gold; and with a view to ensure this convertibility, both the paper currency reserve and the gold standard reserve should be located in India. The greater part of the gold reserve should be held in actual gold: this does not imply that India should have no foreign credits and bills to be drawn upon when necessary. For, as long as India has to pay home charges, and her balance of trade is

at the mercy of rains it would be wise to keep a certain amount of our resources in foreign credits to mitigate the hardships of an occasional adverse exchange. Government should further attempt to accumulate a large stock of gold by keeping gold products inside the country, make the import duties payable in gold or gold equivalent, and take full advantage of the occasions when India had a favourable balance of trade by becoming large buyers of its export bills, and ordering gold to be sent to them from the proceeds of such bills.

The main changes that I propose in the pre-war currency system are :—

(1) that the rupees be made freely convertible into gold *bullion* at the rate of 1*s*. 4*d*. gold.

(2) that the British sovereign should cease to be legal tender,

(3) that the paper currency Reserve be amalgamated with the gold standard reserve and both located in India.

The first is only a slight variation of Ricardo's Exchange remedy; the second will be dealt with in my aswer to Q. 6; while the third is only a repetition of the suggestion made by Mr. F. C. Harrison to the Chamberlain Commission. Ricardo's scheme provided that paper should be the circulating medium, and that the Bank of England be obliged to purchase with notes any quantity of gold that was offered at a fixed rate (£3 17*s*. per oz.), and sell any quantity of gold that may be demanded at another fixed rate (£3 17*s*. per oz.). The only change that I have made is to substitute partly rupees for paper money. Complete convertibility is the basis of both the proposals; and both seek to prevent gold coin from entering into circulation by issuing gold in the form of bullion bars and not gold coins. Neither leaves the quantity of circulation to the discretion of the Bank or the State. Ricardo's exchange remedy, however, included an additional safeguard against a capricious refusal by the Bank to issue paper money. It kept the mints open to the coinage of gold; but fixed the price at which notes were to be issued in exchange of gold in such a way that taking into account the loss of interest during the interval between the delivery to the mint of gold bullion and the receipt of coins, the owner of the bullion found it to his interests to sell it to the Bank for notes rather than have it minted as coins. This appears to me not only unnecessary, but also likely to seriously interfere with the success of the scheme.

I regard these changes as substantial modifications of our pre-war currency system. They will give India an automatic gold standard and remove the greatest defect of the gold exchange standard as it operated before the war.

Under our pre-war system the currency of India was expanded not in response to the demands of trade as a *whole*, but only of a part of that, namely, *external trade*. If during any period the balance of trade in favour of India increased rapidly, the sale of Council Bills received a stimulus, and the amount of rupees or notes in circulation was augmented thereby out of all proportion to the real increase in the *total* trade (external and internal); for the internal trade does not necessarily grow in proportion to the growth in India's favourable balance of trade. Thus the system increased the total purchasing power much more than a real automatic system would.

Even this statement needs an important qualification. India is a land of seasons; and it is only in the busy season that there is a keen demand for council bills, necessitating fresh coinage or further issue of paper money. Thus the currency of India was expanded, not in response to the growth in external trade *throughout* the year, but only in proportion to the demand for funds for financing export trade during the busy season. The truth is, that the idea underlying the whole system that the *rate of exchange* is the test of deficiency or redundancy of the currency, is wrong and mischievous. Exchange may be the measure of the temporary requirements of foreign trade, but it is the rate of discount that is the proper index to the temporary requirements of India's internal trade. Exchange may show the scarcity or abundance of currency in one country as *compared* with another; but it is the fall or the rise in the price levels of a country that reveals the insufficiency or redundancy of the currency for the *normal* requirements of its total trade.

A satisfactory system of currency is automatic also in contracting currency. In gold-using countries before the war, gold coins were easily exported, or melted and withdrawn from circulation, when trade was slack. This *automatic* process of contraction has all along been wanting in the Indian system. *Legally*, the rupees have never been freely convertible into gold inside the country; nor are

they externally convertible except on those rare occasions when Government sells Reserve Councils at times of weakening exchange. And exchange, as every one knows, is capable of being influenced by many factors other than internal conditions of trade. Trade may be depressed, and currency may be redundant, and yet heavy and continuous borrowing on the part of India may reverse the tendency to weak exchange. Prices may rise in India, and yet exchange may not only remain stable, but even rise because of greater inflation in other countries.

It is true that the rupee was not absolutely inconvertible into gold inside the country, for in pre-war days the Indian Government did *at times* offer gold for rupees. But there are varying degrees of inconvertibility. The very essence of the gold exchange standard lies, according to one of its best exponents, in "some degree of *unwillingness* to supply gold locally in exchange for the local currency; but a high degree of willingness to sell foreign exchange for payment in local currency at a certain maximum rate," this in itself implies some inconvertibility in actual practice. Add to this the fact that against the rupee, which is only a note printed on silver, Government keeps no reserve in *gold* to ensure convertibility apart from what they consider necessary for supporting the paper currency notes and the foreign exchange, and the degree of its inconvertibility becomes all too patent. The rupee at best had, under our pre-war system, only an imperfect or "suspended convertibility," and its over-issue was on that account just as likely as that of inconvertible notes. Our inconvertible rupee, therefore, failed to satisfy the most essential requisite of a sound currency, *viz.*, stability of purchasing power. It failed in this respect to a much greater extent than the old freely minted rupee did.

Prior to 1893 the value of the rupee was the same as the value of its silver content; and so a substantial part of the rupee coinage was used as bullion. A simple calculation would show the effect of correction on this account. Mr. F. C. Harrison estimated the volume of rupee circulation at 120 crores in 1892; and Sir Edward Baker put the loss by wastage at 2 per cent. per annum. The average annual coinage previous to 1893 was about seven crores, of which *half* used to be melted by the public, according to official estimates at one time. But later on Mr. O'Connor, the Director General of Statistics, in 1898 admitted before the Fowler Committee that "A very much *larger* proportion of the rupees that were coined must have been melted down into ornaments." It would not therefore be far wrong to put the amount which thus disappeared from circulation at five crores per annum. The annual addition to currency before the closing of the mints was thus only two crores on an average, an amount just enough to make up the loss by wastage. In other words, the rupee circulation was pretty steady prior to 1893. This accounts for the comparative steadiness of prices before the closing of the mints.

Conditions, however, were different after 1893. Rupees once coined remained coins, for it was unprofitable to melt them. They could be used only as currency, and so the entire amount of coinage influenced prices.

It is interesting to note in this connection the opinion of Mr. Lindsay, the real originator of the present system, on the nature of the rupee standard in India. He plainly told the Fowler Committee, "I look upon rupees under the present system as simply inconvertible metallic notes, and they operate entirely according to the laws that govern an inconvertible paper currency. I think the laws that govern an inconvertible paper currency and the laws that govern an inconvertible *coin* currency are precisely the same" (Q. 37-42). The natural corollary follows, that the main cause of a rise of prices under an inconvertible coin currency is usually its excessive issue, or to use a technical phrase, *over-issue.*

Much the same thing may be said about our note circulation. Indian currency notes were convertible into rupees both before and after 1893; but the monetary changes of 1893 effected a revolution in the character of the rupee. Prior to 1893 it was a freely minted coin convertible into bullion; after 1893 it was a token coin not convertible freely into gold except on those rare occasions when Government sold Reverse Councils. The notes being thus convertible only in an inconvertible coin currency influenced prices much in the same way as inconvertible paper money does.

This grave defect in our pre-war currency system can be easily cured by making the rupee freely convertible into gold.

Q. 5. Who should be charged with the control of the note issue and on what principles should control and management be transferred to the Imperial Bank, and if so what should be the general terms of the transfer?

I would entrust the control of the note-issue to the Imperial Bank provided its issue department is kept separate from the banking department and its constitution changed, so as to provide for more Government control over the management of the Bank. I am generally in agreement with the scheme outlined by Mr. Keynes in his Memorandum before the Chamberlain Commission.

I would aim at keeping the metallic backing of the note issue entirely in *gold* and fix the statutory minimum at 60 per cent. of the net circulation.

I am not in favour of issuing notes of lower denomination than Rs. 10, as in a vast country like India, where communications are so defective, a small note is *de facto* inconvertible.

Q. 6. I am not in favour of minting gold in India nor of using gold as currency. The bulk of internal transactions in India involve only small amounts, for which rupee is quite a suitable coin. There is no adequate reason why poor nations like India should allow a large part of their resources to be spent in providing themselves with so costly a medium of exchange as a gold currency if something cheaper can serve all the purposes that it would do. It is, moreover, necessary to keep down the world's monetary demand for gold if we are to avoid a heavy fall of prices all over the world. For these reasons I would be content with a convertible rupee, convertible not in gold coins, but gold bullion only. This will ensure the automatic expansion and contraction of our currency. Convertibility is the best safety value for redundancy of currency; it provides the easiest automatic *danger-signal* to Government when it is inflating the currency. A system of convertibility will not need for its success a large part of gold if the *British sovereign ceases to be legal tender.* For if the rupees in circulation are diminished and not replaced by gold coins, the value of the rupee will rise quickly to the point where it will cease to be profitable to exchange rupees for gold. It is no doubt possible that in times of war or severe famines convertibility may involve Government in serious risks; but if the Bank of France has had sometimes to suspend cash payments or the British Government to suspend the Bank Charter Act, there is no harm if a similar course is left open to the Indian Government in exceptionally grave emergencies. Such exceptional cases, as was pointed out by Mr. Farrer in his evidence before the Fowler Committee, are not made the basis of currency systems. "We look to the *ordinary* state of things." Looking at the problem from this point of view, India's case seems to be a specially favourable one. "She has a great and elastic power of producing saleable exports; she imports, on the balance a large quantity of the precious metals, which she retains with great tenacity; and she recovers very quickly from great depressions." It is again true that the largest possible reserve of gold will prove insufficient if all the rupees in India, or for the matter of that, even all the rupees except those absolutely required for purposes of circulation, were presented at one moment for encashment in gold. But such contingency is just as likely as a general run on all the banks and currency offices. The only security against such a panic is that no such demand for conversion is ever likely to be made. The masses, the majority of whom are poor, will find the rupee useful as the rupee; it is the thoughtful and the speculative people who will demand gold for rupee The only way to establish the confidence of the latter is to meet their demand boldly.

APPENDIX 14.

Statement of evidence submitted by Mr. Brij Gopal Bhatnagar, M.A., F.S.S., Lecturer in Economics, Allahabad University.

At the very outset, I may be permitted, to emphasise two or three points that appear to me important in connection with the problem in hand. First that we in this country are not fortunate enough to have a clean slate, on which we could draw any figure that our imagination, helped by all the sound reasonings of currency theory of the highest order were to lay down as the ideal picture of the currency system. We have had a system of currency, good, bad or indifferent as it may be, working for a number of years, and we could not, however much we may desire, change it at a stroke to approximate to our ideal in a day. Throughout the discussions on this topic this point is generally ignored, and young and old

enthusiasts of gold standard backed with gold in active circulation go on advocating an instantaneous return to gold standard and gold currency with such an ease, as if the road to gold currency was as unblocked as the free surface of their own writing pads to give an unblocked journey to their pens. And the same is true in another sense of the advocates of a managed currency system as expounded by Prof. J. M. Keynes. While discussing currency problems in India or for the matter of that in any part of the world, we should not (as a matter of fact we cannot afford to lose sight of this limitation, if we mean business, and do not want to indulge in mere rhetoric to catch the public ear) lose sight of the limitations placed upon our present actions by those of the past.

To bring the full significance of the above, I must mention another factor, however shocking it may be to our faculty of reasoning, and perhaps to us also who look upon ourselves as reasonable beings, and it is that in matters of currency sometimes men in the mass are very much guided by prejudice. If they have been accustomed to the use of a particular coin of a particular size or shape, with a particular figure on it, and if this coin is sought to be replaced, say by some better coin, even then we have the sad phenomenon of the masses refusing to adopt it as their currency. However much we may feel mortified at the stupidity of people who cannot distinguish good from bad, yet no amount of heart burning on our part is likely to help us in seeing our favourite through as a current coin. History tells us that this actually happened in some of the States of North Africa, where in the 19th century the Austrian Government had to coin the Maria Theresa dollar with exactly the same design and date as when first issued in 1780 and that because it was the favourite coin of the people and they refused to accept any other.

Secondly, the system of currency in a country has necessarily to be something of a compromise as between the ideal of economic theorists and the business needs of the country, wherein again a very large part is played by what people call popular sentiment and the popular prejudice. From the theorists' point of view, what the system of currency in a country should, with many other things, always be able to do, in order to be classed as a good and successful system of currency, is that it should provide media of exchange suitable to the needs of the different classes of people living within the country, that is, the currency of the country should consist of coins of such varied values and denominations as would be suitable to perform the exchange transactions of the various groups of people with their varied standards of living and standards of purchases. From the theorists' point of view, the more of these coins of various denominations consist of paper or leather or some other cheaper material the better. But can a theorist by his mere wish, or by the dictates of his very sound logic, make the unlogical public adopt the paper coinage as the common media of exchange in a country, unless the bulk of the people of that country have been educated in the use of paper? My answer is an emphatic No! And this because both past and present suggest that answer. We read that in the 14th century Muhammad Tughlaq, perhaps one of the ablest kings to hold sway over India, issued his token currency of copper, and that people refused to accept it even at the point of sword. And poor Muhammad earned for himself the title of Mad Tughlaq in the bargain. The history of our own note circulation during the Great War is also suggestive of the same idea. Or can a Government, be it ever so powerful as the Government of India, compel our masses to use the gold sovereign as their medium of exchange if their standards of living and purchases be such as to make the rupee or some other coin of lesser value more convenient than a coin of such high value as the sovereign? By no means yes. They failed to do so in their first attempt when acting on the Report of the Fowler Committee in the year 1900-01, they tried to push the sovereign in, and they are bound to fail again, so long as the standard of incomes and of expenditure of the masses in India is not sufficiently raised to warrant a change in that direction. It was this internal weakness, sad indeed from a theorist's point of view, this peculiar insistence on the part of the Indian public to have rupees which compelled the Government of India to adopt the Gold Exchange standard instead of gold standard with gold in active circulation as against the express recommendations of the Fowler Committee and the still more express demand of the vociferous educated classes of this land—classes accustomed to measure the needs of India by their own measuring rods. It was this peculiar insistence on the part of the Indian public—real people of India, who live in villages and whose monthly income, according to the most sanguine and the most optimistic calculations is

not more than Rs. 9 *As.* 12* *per month per head—that compelled* Government of India not only to depart from the findings of a Committee, which they had accepted, but also to depart from the ideal of the Gold Exchange Standard itself, as conceived by Plato or as developed by that prince of theorists David Ricardo and as recommended by Lindsay before the Fowler Committee. In deference to the wishes of the people, Government had to adopt " a note printed on silver," and not a note printed on paper for internal circulation. That up to the time of the Chamberlain Commission (1914) even the Government of India had their ideal in the Gold Standard backed with gold in active circulation is made perfectly clear when we read Lord Meston's (then Sir James) following statement, when speaking during the Budget debate of 1910 : " The broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Commission that progress has been real and unbroken. There is still one great step forward before the idea can be realised. We have linked India with gold countries of the world, we have reached a Gold Exchange Standard, which we are steadily developing and improving. The next and final step is a true gold currency. That I have every hope will come in time, but we cannot force it. But the final step will come in time when the country is ripe for it." It was in pursuance of this that in the year 1912 the Government of India proposed to open the Bombay Mint to the coinage of sovereigns, but for one reason or another the British Treasury came to their rescue, and they had to defer the proposal until the Royal Commission appointed in the year 1913 had reported on the course to be taken.

This should be enough to show that while deciding what kind of currency, or what system of currency a particular country will adopt, or change to, at a particular time, we must not ignore the practical needs of the people as determined by their standard of living and standard of purchases.

The third, and I should think the last point to be kept in view while tackling the currency question of India, and as a matter of fact all practical problems of life in all parts of the globe, is the interdependence of life phenomena within a community and with phenomena outside the community under discussion. State of progress in one department of life has its influence on the possibility of progress in other departments of life.

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This is what I mean by interdependence of life phenomena. Thus during the war, India as usual wanted to absorb immense quantities of silver rupees, and the Government were equally anxious to give her the same, but changes in other parts of the world made it next to impossible for them to continue to give rupees in exchange for Indian produce at the pre-war rate, and they had to shift from one thing to another—from gold *mohur* to temporarily inconvertible paper notes. It is in this synthetic way that I should like the problem of Indian Currency to be approached. The problem is not such a simple matter as our enthusiasts of different schools, would have us believe. It is above all a practical problem, and is one of those live problems, where theory and practice, and reason and prejudice, commonsense and sentiment jostle with each other, and where out of these conflicting forces the practical administrator has to evolve a *via media* more or less acceptable to all.

After the preliminary discussion carried out above three questions naturally come to my mind : (i) What is that system which we have now and which we seek to modify ? (ii) Why we seek to modify it, and what is our ideal in the light of which we wish to modify and to which we wish to reach ultimately ? And (iii) how far under the present circumstances of life and labour in this country can we go towards the realisation of our ideal ? I need not stop to answer the first of these questions, as all of us are familiar with the one answer that alone can be given for it. But I must say something about the second, as all of us are not of the same mind in giving an answer to it.

Before answering the first part of the second question, " Why we seek to modify the existing system ? " we may note the canons of currency. True, so far nobody has formally given us the canons of currency as Adam Smith gave us the Canons of Taxation. But for any one who cares, it should not be difficult to read them for himself from the functions of a currency. I read them thus : Every system of currency, in order to be classed as a good and successful system, must have : (i) Coins of varied values and denominations to suit the standard of

* Findlay Shirras in 1922.

incomes and expenditure of the different classes living within a community. If the currency system of a country consists of only one coin, and if there are four or five classes (based on their incomes and spending habits) then the result would be that such a system would not give complete satisfaction to all members of the community; for some it would be too high, for others too low, and general dissatisfaction would be the result. (ii) In every system of currency there should be some scope for expansion and contraction of the volume of currency to suit the varying volume of trade at different times. In India during certain months of the year we find that trade is brisk, larger number of exchange transactions take place, and naturally people want more of money, while when the trade is dull less of money is required. If the volume of currency in a country is not changeable with more or less ease, chances are that community would be subject to continuous fluctuations of prices. And everyone knows that constant and quick fluctuations of price level are not healthy for the trade and commerce of a country. (iii) Every system of currency, and the systems of currency of those countries in particular that have trade relations with foreign countries must have some *sure* and *certain* provision for providing the international currency—gold—whenever and in whatever quantities it is needed for making payments abroad. Now unless a system of currency is capable of satisfying the three conditions mentioned above, with more or less success, it is hardly possible to look upon it as a good system of currency. Let us see if our own system is capable of passing the test.

Leaving apart what there may be on the Statute Book of India, in practice our system of currency consists of :—

(1) token rupee, which is our principal, as well as the unlimited legal tender coin,

(2) the silver subsidiary coins, consisting of 8 As. or half-rupee pieces, and 4 As. or quarter-rupee pieces,

(3) the nickel change, consisting of 2 As. or $\frac{1}{8}$ of a rupee piece, and 1 anna or $\frac{1}{16}$ of a rupee piece,

(4) the copper change, consisting of pice, a coin which is one quarter of an anna or $\frac{1}{64}$ of a rupee, and pie which is $\frac{1}{3}$ of a pice, and

(5) paper currency, consisting of notes varying in denominations from Rs. 5 to Rs. 10,000, payable on demand in token rupees.

For payments abroad, or for payments by outsider to us in India, Government have undertaken to provide gold for the rupee at a ratio which has been varying from point to point for the last five or six years in the first case, and to provide rupees or notes convertible in rupees at equally varying rates, during the same past period. To discharge this double duty with success they maintain two reserves, one of gold, and the other of silver rupees or notes, convertible in rupees.

As must have been noted by this time none of the coins used in the country is a standard coin, and naturally none of them is freely minted. Such in brief is what we have in the domain of a currency system in this country.

Putting our system on the first touch-stone, we must frankly admit that both in theory and in practice it passes through. The poorer classes, who constitute the majority in this land find their suitable money of account in the rupee, and their current monies in the rupee for their highest payments, and, in the silver, the nickel and the copper change for their daily needs. For hoarding, of course, if there is much of hoarding amongst these classes, outside a few unusually rich areas, such as the Punjab Canal Colonies, they can purchase gold or silver in the market. Let him who doubts the truth of this statement convince himself by going through the large number of family budgets collected by (1) the census authorities of 1921, (2) the Labour Office, Bombay, (3) the Chanakya Society, Patna, and (4) the Economic Enquiry Board, Punjab, Lahore.

For our middle classes the rupee and the paper notes of smaller denominations from Rs. 5 to Rs. 100 are there, and that is what they use in their daily life. For the rich of the land, the banks' cheques, and ungreased notes of denominations higher than Rs. 100 must be helpful, and that is what we find them using in cities like Calcutta, Bombay, or Karachi, wherever they live.

From the point of view of variety in values and denominations to suit the business needs of the different classes of people living in this country, our system of currency, with its wide range of coins, varying in denominations from $\frac{1}{3}$ of a pice, which is itself $\frac{1}{64}$ of a rupee, to a Rs. 10,000 note, is eminently satisfactory. But this is only from a theorist's point of view. It fails to take note of

that deep-rooted love of gold which seems to be peculiar to humankind all over the world, including the advanced England and backward India, as well as of that lack of faith in our paper currency, which is, as was pointed out by Sir James Begbie in his minute of Dissent to the Chamberlain Commission (1914), the direct result of our note circulation being convertible in inconvertible token rupees. To these we would return in their proper place.

Now to the second: That in India every year we have a season of slack trade and another of brisk trade is a fact known to all, and needs no proof for its existence on my part. Is our system by its nature responsive to these changes in the trade conditions? My answer is, it is not: So long as we had an open mint for silver, *i.e.*, up to the closing of mints in 1892-3, the element of elasticity was present, but after that we have not had a standard coin, and all coinage of fresh supplies as well as all melting down of the unnecessary or useless coins have been under the direct control of the Government with the result that our internal currency has not been able for so many years to contract itself in response to decreased trade, although we must admit that it has always expanded in response to the increased trade demand. It could not be otherwise: In nine years out of every 10 we have a favourable balance of trade resulting in payments in the form of currency to our people, and currency goes on increasing from year to year. In other countries with an open mint and a standard coin, extra coins find their way back to the mint or the melting pot. Here with a closed mint and a token rupee as our principal coin and standard money, this is impossible. True this serious defect in our system has been partially modified by the action taken on the recommendation of the Babington Committee that "with a view to meet the seasonal demand for additional currency provision should be made for the issue of notes up to five crores over and above the normal fiduciary issue as loans to the Presidency Banks (now the Imperial Bank of India) on the security of export bills of exchange." The limit of five crores fixed then has now been raised to Rs. 10 crores. But this at best can be looked upon as a palliative, not because the device in itself is in any way exceptionable. Perhaps no more economic method could be thought of. But here, again, the peculiar habits of the people of this land come in our way. When the season of brisk trade is on in India, the big merchants of Bombay and Karachi need huge sums to make payments for the agricultural produce that they purchase in the up-country rural tracts. And the demand in these up-country rural tracts is for metallic coin, and not for paper convertible in token rupees. The result has been that the country has not been able to get full advantage of the unexceptionable device suggested by the Babington-Smith Committee. If our paper currency were convertible in gold, it would have appealed much more to the country seller, and the big merchant engaged in export trade could have used less of metallic currency (necessarily rupees under the present system) and more of paper notes. Thus it is that the phenomenon of annual permanent additions to the volume of currency in this country still continues, of course, in a mitigated form than before. But the problem is still there, and we cannot by any means say that our system of currency is elastic in the full sense of the term.

Coming to our third canon we find ourselves in a wonderland with things bewildering all about us. According to the Statute Book of India, Government undertook (*vide* an announcement in the *Gazette of India*, February 2, 1920) to give 2*s*. gold in exchange for a rupee to whomsoever has got to make some payment abroad, as well as to give a rupee in exchange for 2*s*. gold to whomsoever has got to make a payment in India. But in practice, it has been otherwise. In February and March following the announcement, the actual rate was 2*s*. 10*d*., while in December of the same year it was as low as 1*s*. 5*d*., and in February and March of 1921 it came down to 1*s*. 3*d*. It continued somewhere about this figure throughout the years 1921 and 1922. It began to rise again from January, 1923, and was maintained at about 1*s*. 4*d*. throughout that year. While since July, 1924, it began to rise again, and has been hovering now for more than a year at 1*s*. 6*d*. Surely the picture drawn above, if it is faithful, and I for one believe that it is both true and faithful, could not justify us to say that our system of currency, as it is, makes "sure and certain provision for getting the international currency (gold) whenever and in whatever quantities it is needed for making payments abroad."

Such are in brief the shortcomings of our existing system and the sooner they are modified the better for all concerned. The simplest and in one sense the easiest way to get over the defects mentioned above would be to introduce gold standard backed with gold in active circulation, to declare our paper

currency convertible in gold and to reduce the token rupee which is now our principal coin to the position of a subsidiary coin with a limited tender. And this is what is generally recommended by the thinking people in this country, both as a solution of our present difficulties as well as the first step to reach our future ideal. I must confess that if we could adopt the system outlined above, the element of variable rates in foreign exchanges would have disappeared and the lack of elasticity would have also gone. But if, as a theorist, I cannot recommend it as our ideal for the future, the exigencies of the present situation prevent me from recommending its immediate adoption.

Should we adopt the system as outlined above as our permanent ideal? When we study the history of currency in some important countries of the world, we find that most of them have been consciously or unconsciously approximating towards the system in which internal currency consists mainly of paper (such as notes, cheques, etc.), convertible in gold, and of such cheap metallic subsidiary coinage or *surrogates* as may be necessary for the day-to-day transactions of the people. Gold is kept in the reserves of banks or government treasuries and is made obtainable as far as possible only for making payments abroad. It is not denied to the people legally, but the whole thing is so managed (in fact, the banking habit being highly developed in the people they seldom ask for it) that people take as little of it as possible. Both gold and the paper convertible in gold are made unlimited legal tender, while the subsidiary coinage is made tenderable only up to a limited amount.

That this was the ideal of the Indian Government and the Indian people at the time of the Fowler Committee is clearly recognisable in the past literature on the subject, both Government and popular. That this was not kept constantly in view, after that as the guiding star of India's Currency Policy, is also made perfectly clear by the fitful movements of Government during the last 25 years. That it is not now the ideal of the Government is also clear from the following: Thus Sir Basil Blackett, K.C.B., while speaking before the Associated Chambers of Commerce, at Bombay on the 4th December, 1923, remarked: "The whole tenor of my remarks to-day has been to suggest the unwisdom of attempting to speak too confidently about the future or to act in anticipation of events . . . The goal towards which we are all working is, of course, a gold standard. England is doing the same. A gold standard does not by any means necessarily mean a gold currency. Let me appeal to three authorities in support of this statement. My first is Plato, who, in laying down laws for his ideal State, pronounced strongly in favour not of a gold currency but of the gold exchange standard. For internal purposes his State was to issue currency notes, stamped on bits of leather, but for international payments it was to keep a reserve of gold. My second authority is Mr. Keynes, who, in his book already quoted, expressed himself on this subject perhaps more freely than I should care to do. 'Much nonsense,' he says, 'is talked about a gold standard' properly carrying a gold currency with it. If we mean by a gold currency a state of affairs in which gold is the important medium of exchange, no country in the world has such a thing (unless it be Egypt). Gold is an international but not a local currency. The currency problem of each country is to ensure that they shall not run the risk of being unable to put their hands on international currency when they need it, and to waste as small a proportion of their resources on holdings of actual gold as is compatible with this. The general adoption of the practice of putting gold into active circulation would at the present time involve such a demand for gold as would bring gold prices down to a level so far as to discredit all forms of paper currency and drive people back to metallic forms of currency. Were this to occur, the demand for gold as a medium of internal exchange might have disastrous consequences. England, I imagine, is not likely again to waste any proportion of her resources on an actual gold circulation.' The question whether India will want to do so need not at present arise, because progress towards a gold currency would necessarily be made by way of the establishment of a gold standard, and on that first step we are all agreed, and it is for that we are working. But the gold standard of the future may perhaps be a little different from the system with which we were familiar in Europe before the war. This brings me to my third authority in favour of the gold exchange standard system. If the resolutions of the Currency Committee of the Genoa Conference are carefully studied, as they deserve to be, it almost seems as if Europe intended to work her way towards something very like the system which we have had established in India for many years past. There you will find reference to "gold centres" in which, for convenience and economy, the world's

reserves of international currency would be concentrated. If other countries maintained reserves of gold at all it would not be because, they required them for their own purposes, but because, being unable or unwillng themselves to take a leading part in the maintenance of an international gold standard, they were expected as a condition of membership of a world currency system either to make a direct money contribution to the cost of central gold reserve or to suffer, for their own and the general advantage, the inconvenience and expense of having a portion of their resources locked up in unproductive form.

> " In such a system it seems that India might well find her appropriate place, for in matters of currency policy there can be no irreconcilable conflict of interests between nations. The advantage of the whole must be the advantage of every part. I cannot admit, for example, that the question which we have been discussing to-day can be viewed either from an Indian or from an English standpoint. It is my business as Finance Member to put the interests of India first, and I unhesitatingly do so. But in this matter the idea that there is a conflict of interests is moonshine. There is plenty of room for difference of opinion but there cannot be any difference of motive. Whether we are exporters or importers or merely in the Finance Department of the Government of India, we can afford to approach the subject from the same angle, with the same ends in view, and we cannot afford to do anything else."

That this should not be the ideal of our currency policy in the future is my considered opinion and for the following reasons: Although one Commission and one Committee have pronounced in favour of adopting the gold exchange standard as it has been working in India (and not as it was conceived by Ricardo or as it has come to function in England) as our permanent currency policy, and although Mr. J. M. Keynes is never tired of singing its praises, yet, I for one, cannot reconcile myself to a system at once expensive (expensive because instead of paper in internal circulation, it has silver token rupees on which India loses much in wear and tear) and crude (crude as it is exposed to danger at its two ends). It is liable to fail (i) if the Government fail to give gold in exchange for rupees to meet external obligations of India, and (ii) if the Government fail to give rupees in exchange for gold. In view of these facts we could never dream of having the Gold Exchange Standard as developed in India as our permanent currency system. Naturally then we could have no better ultimate aim of our currency policy in India than the system that we have termed as the ideal system of currency towards which consciously or unconsciously most of the countries of the world have been converging. With this as our ideal let us examine the question 3. How far under the present circumstances (i) of life and labour in this country, (ii) of past developments in our currency system, and (iii) of condition of trade in and out of the country can we go towards the realisation of our ideal ?

The Fowler Committee and the educated public opinion in India were, and the public in India are in favour of reaching the ideal by adopting a gold currency in active circulation and then its voluntary substitution by paper (convertible in gold) when the people will have been educated in the use of paper-money as England and some other countries of the world have done before us. The Govern- of India, though they accepted the recommendations of the Committee, and in the beginning were anxious to translate them into practice, after the set-back of 1900, when they made an effort to send sovereigns into active circulation and got them back. lost confidence in gold standard backed with gold in active circulation and adopted gold exchange standard as the means to attain the end. And after the Chamberlain Commission's Report the gold exchange standard that was in the beginning adopted only as a means to an end, was adopted as the end in itself.

There are people who believe that it was a mistake on the part of the Indian Government to give up the introduction of gold into active circulation, after making one half-hearted effort in that direction. Why they think it was a mistake, is very well brought out by Sir James Begbie's minute of dissent to the Chamberlain Commission Report, part of which is quoted here: "Another argument given is that it is desirable to educate the people in the use of more economical forms of currency than gold; that, of course, is a desirable object but the experience so far gained does not inspire the hope that the educative effort of the present methods will be effective in attaining it. The increased circulation of notes may be pointed to as an advance towards the use of more economical forms of currency : but it is due not only to a desire to economy in currency, but partly at least to increased facilities for the employment of notes. Against this favourable sign must be set

the increased absorption of sovereigns. . . . This demand for gold coin, accompanied as it has been by increased demand for gold bullion, dominates the whole currency situation. For a country that takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments. The token currency not only prevents the holders of the gold from utilising it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth. While, therefore, the process of education in the use of economical forms of currency is proceeding, the probabilities are that people will none the less continue to amass their growing wealth in solid gold. In my opinion what is needed is not education in the use of economical currency so much as education in the use of stored-up gold. The first step, however, is to convince the people that if they use their gold they will get it back when they want it, and that cannot be done while there is extensive and expanding token currency. A currency in which gold was a more prominent feature and to which token coins were less freely added would be more practical as an educative force.

" The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands for gold, and the possibility of its further expansion make it a question of the highest importance. I do not, however, think that the opinion expressed in paragraph 75 of the Report that ' the hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs,' sufficiently accounts for the accelerated pace it has latterly acquired. In my opinion that is to a large extent the outcome of the policy which has brought into existence the extensive token currency. Up to the closing of the mints in 1893 to the free coinage of silver the public had been accustomed for generations to full value coins for their currency requirements, and they are not now prepared to hold their profits and savings in the form of over-valued rupees. Hence, their preference to gold, both coin and bullion.

" For the reaons that I have indicated, I am of opinion that the true line of advance for the currency policy is to discourage an extension of the token currency by providing increased facilities for the distribution of gold when further increase in the currency becomes necessary. These greater facilities should, I consider, include the issue of a gold coin from an Indian mint of a value more suitable for general currency use than the sovereign and the half sovereign. . . ."

Further, those who believe in the above line of argument point their finger towards the huge additions to currency that have been made in the years succeeding to the Report of the Fowler Committee, and say that had Government of India adopted the policy of sending gold coin into active circulation, then long ago very large quantities of gold coin would have permeated in the internal currency of the country, and people would have lost the sense of insecurity about getting gold back, which has been engendered by the introduction of the silver tokens, and that now gold could have easily found its way to the treasuries of Exchange Banks at the time of an adverse balance of trade. How sadly true this line of thought! And yet now it only reminds me of those words of wisdom which I remember having read somewhere that " the saddest words are might have been ".

No doubt, there is much force in the argument of Sir James Begbie, that the use of token rupees helps to intensify the desire of India people for hoarding gold, and that if gold were freely available as a medium of circulation much of its glamour in the public eye would go. But there is one point which we should consider before we can completely subscribe to the idea of immediate adoption of Gold Standard with a gold currency in active circulation. Is the large consumption of gold in India solely due to this cause, or is it also due to the innate desire in man and woman for jewellery and ornaments? If in India it is due to the absence of gold in active circulation then how to account for the large consumption of gold in European countries, where gold standard and gold currency are the rule and where people are more advanced and enlightened than the Indian people? To me it seems that Sir James has attached rather too much importance to the educative influence of a gold currency on the hoarding habit of the people of this land. Without denying the influence of an active gold circulation in this direction, I would attach far greater importance to such factors as general education, the development of co-operative credit and banking, and a general rise in the standard

of living and thinking, and this due to a rapid progress in the arts and industry, the means of communication, and trade. The development of banking and investing habits have been a slow process even in the countries of the West, and are bound to be so in a conservative country like India, and so long as these two habits are not fairly highly developed, hoarding of precious metals is bound to continue, whether there be gold in active circulation or not.

To me it seems that the initial mistake was made by the Fowler Committee which in recognition of the monetary needs of the masses permitted the continuance of the rupee as unlimited legal tender. With many other things the Committee recommended (1) the opening of the Indian Mints to the free coinage of gold, (2) the fixing of the exchange value of the rupee at 1*s*. 4*d*. gold, and (3) the continuation of the token rupee as well as of gold as unlimited legal tender. Now had the Government of India persisted in carrying out all the above recommendations in full, then the policy of open mints for gold would have sent all fresh supplies of gold to the public; and perhaps most of it, in the beginning at least, would have gone to replace rupees in hoards and notes in active circulation, and for years to come would not have formed a subtantial part of the active circulation. And as the rupee was permitted by the Committee to remain full legal tender, and as the Government had accepted this recommendation, therefore, perhaps at the time of an adverse balance, the public would have confronted the Government with large number of rupees to be exchanged into gold for export. How far Government could have discharged this onerous duty, without suffering a serious loss is not easy to judge; but I for one think that they must have suffered considerably if an exchange crisis were to take place soon after the recommendations of the Committee, as it actually did take place in the years 1907-8.

The idea of some people, that just as in France we had what is known as the Limping Standard where both the token silver franc and the gold franc were unlimited legal tender (in theory now, but in actual practice during the last quarter of the last century) and the system worked for so many years almost successfully, similarly in India also we could have the same system is, though plausible not practicable. And the reasons are not far to seek. In France, the silver token franc never held such a predominant position in the circulation of the country as the rupee does in India. The circulation of gold franc was much greater, and it acted as the actual money of account and the medium of circulation for a very large part of the total population. While in India the bulk of the people are poor, their standard of purchases is low and for years to come, rupees are likely to continue to be the most convenient medium of circulation. Here a gold coin be it of the same weight and fineness as the sovereign or even of so much weight and fineness as would be equal to say Rs. 10 has not got much chance of forming an appreciable factor in active circulation. It may serve the convenience of the very few rich in cities like Calcutta, Bombay or Karachi, or it may serve as the store of value for the hoarding variety, but under the existing conditions of standards of income, expenditure and living of the mass of the people, it can never be of any practical use as currency to the Indian people. The argument, that we in India, have used the gold *mohur*, and the gold *fanam* in ages past, does not apply to the existing conditions. The days when these gold coins were used no longer exist. In the days of the gold *fanam* there was no quick and cheap means of communication, there was very little trade between the cities and the surrounding rural areas, and most of the bargains in the villages were transacted in kind and not in cash. In the days of the *fanam*, although there was money, and that money of gold and yet the majority of the people lived under barter economy, and the few who could secure the gold coins invariably used them as a store of value. It was only the very few rich people living in towns who did make use of the gold *mohur* or the gold *fanam* as medium of exchange. Now things are completely changed, and under the stress of modern economic forces are changing still faster. People even in the remote villages are using money in day to day transactions and for people in the villages, so far rupee is by far the most convenient unit, both as a medium of circulation as well as a money of account.

That is why, I look upon the recommendations of the Fowler Committee as inconsistent. Perhaps if they had recommended the immediate declaration of the rupee as a subsidiary coin tenderable say up to Rs. 100 or Rs. 250, then for all higher payments gold could have been attracted. It is true that the Fowler Committee themselves point out that at some future date the rupee will have to be relegated to the position of a subsidiary coin, tenderable only up to a limited amount, but that failed to make arrangement for the intervening time. As a

first step therefore towards the realisation of their ideal and keeping full well in view the peculiar needs of the people, they should have made the rupee a truly subsidiary coin tenderable say up to Rs. 250 only.

And the next important steps towards the realisation of their ideal would have been (as actually recommended by them) (i) to take steps for the introduction of gold in active circulation and (ii) (this they omitted to do) to make note circulation beyond the limit up to which rupees were kept legal tender, convertible in gold only. And to-day if we could do that our system so modified would be much nearer the ideal than ever before. But can we take all these steps now? Perhaps the majority of thinking Indians, after witnessing the callous waste of India's gold resources during the war, have come definitely to this opinion that whatever the cost, India must at once adopt gold currency in active circulation to ensure that the full share of the world's supply of gold to which she can legitimately lay a claim may reach her in safety. Suppose the Government also decide to do so, then they can adopt one of the two following methods: (1) They may begin (*a*) by introducing a gold coin in India, and opening mints to its free coinage, (*b*) by declaring notes convertible in gold, only keeping notes of small denominations, convertible in the token rupees and that too at the option of the holder, and then declare the rupee a subsidiary coin, tenderable only up to a limit. (2) Or they can modify (i) by giving an opportunity to the people of India to exchange their rupees for gold at a fixed rate, and then allow the free mintage of gold in India and as in (1) make the paper currency convertible in gold. If they adopt the one, then the public will be put to much inconvenience and loss as the large mass of rupee circulation will have become comparatively useless except as bullion for securing gold, to meet large internal and external transactions. Further the country will suffer an immediate loss as the Government shall have to change that part of the cover of paper currency which is now held in silver into gold. All this will cause substantial shrinkage of currency in India and prices will fall very much below what they are now. This will materially injure the agricultural classes. This, of course, will stimulate export of raw materials and thus by bringing about a favourable balance of trade, attract gold, and relieve the situation in the long run. But during the time that adjustment will be taking place, this move will have ruined a large number of individuals having a large number of rupees in their possession. It will have used up all the existing gold resources of Government in providing cover for the paper currency and if an adverse balance were to take place and bring about an exchange crisis like that of the years 1907-08, and 1914, then it will cause a further loss to the people and the Government. If they adopt the second course, which they should on grounds of equity, then the results would be substantially the same as discussed above, with only this difference that instead of individuals bearing a substantial part of the loss, the whole of it would fall on the Government. But is it absolutely essential that we must suffer all this loss? I think not. As I have discussed above there is much truth in the statement of Sir James Begbie, that India cannot come to adopt Ricardo's ideal system without passing through active circulation of gold inside the country. But it is not absolutely essential for us to introduce gold in active circulation immediately. For a long time to come for the various reasons that I have discussed above, there can not be an appreciable amount of gold in active circulation, an amount part of which could be released at the time of an adverse balance to meet external demands. We should, therefore, again adopt the Gold Exchange Standard system as we had it before the war, but not as a permanent system, as is contemplated by the Indian Government, but as a preliminary step towards our ideal. To be sure there should be a definite announcement to this effect.

That it is possible to reach the ideal through the Gold Exchange Standard system will be clear when we recall to mind the fact that we had almost reached it during the years of the war had not the Government with callous indifference wasted India's accumulated gold resources as they did after the Report of the Babington-Smith Committee by selling the Reverse Councils. And further had not the Government studiously and deliberately sacrificed India's legitimate share of world's gold to the interests of the London Money Market when during the war years from 1916-17 onwards, the balance of trade became very much favourable to India. Then was the supreme opportunity for the Government of India to permit the free inflow of gold into the country, to have it minted here, and then to declare the notes convertible in gold instead of in token rupees, and to make the rupee itself a subsidiary coin, tenderable up to a limited amount. But as I have said above, the interests of the London Money Market came in their way and

all sorts of devices were adopted to economise the use of gold for England. What did it matter that India suffered as she did? But this is past history and it is no use worrying about it now. Now we have the present and the future to take care of. After we have accumulated sufficient gold then we should take the first move towards passing from the Gold Exchange Standard to the Gold Standard with gold in active circulation in theory, but gold in bank reserves in practice and this first step should be the declaration of paper currency convertible into gold. Of course, to facilitate the use of small notes, they should be made convertible in gold or rupees just at the option of the holder. To those who might say why should we not declare the paper currency convertible in gold just now, I may be permitted to point out that we can not do so as our present stock of gold is not sufficient for the purpose : This is clear from the accounts of the Currency Department on the 7th September, 1925 :—

		Rs.
Notes in circulation	... ...	188,09,51,399
Reserves in India :	Silver Coin	81,67,51,991
	Gold Coin and Bullion ...	22,31,72,559
	Silver Bullion under Coinage	6,99,48,303
Securities in India...	... ...	57,11,14,946
„ in England	... ...	19,99,62,600

If the metallic reserve to cover the total note circulation should be 50 per cent., then the quantity of gold in the reserve should come up to about Rs. 94 crores worth of gold. This means that our present gold resources in the Paper Currency Reserve fall short of the necessary minimum by about Rs. 72 crores worth of gold. Probably greater part of this deficit could be met by selling the silver contained in the stock of rupees which was about Rs. 89 crores on the 7th of September, 1925, held in the Paper Currency Reserve. At the present price of silver (Rs. 75 per 100 tolas of fine silver) it is likely to fetch about 64·5 crores worth of gold. Even then we shall have a deficit of about 7 crores worth of gold. However, as a matter of policy, I could not recommend the selling of rupees in the Paper Currency Reserve, because even if the rupee were reduced to the position of a subsidiary coin, people in India will surely continue to demand rupees in exchange for notes as well as for other purposes. We should therefore utilise these rupees and substitute gold by and by. Any sudden attempt to sell the hugh stock of rupees as silver is sure to depress the price of silver in the market and thus cause an unnecessary loss to the Indian Exchequer. Then again the gold in the Gold Standard Reserve should not be utilised for this purpose, so long as gold has not permeated sufficiently in the active circulation and the rupee formally declared a subsidiary coin. So long as the rupee continues to form the chief part of the Indian Currency, and unlimited legal tender it would be dangerous to spend any part of this gold as at any moment it may be needed to support an adverse balance of trade and the resulting demand for reverse councils. Therefore the real shortage of our gold resources at present to provide the minimum metallic cover for the note circulation is 72 crores, and so long as it is not provided we can not take the step of making our notes convertible in gold. We should, therefore, for the time being, resume the Gold Exchange Standard system as we had it in the pre-war period and be ever watchful for the accumulation of gold in India in the paper currency reserve till we have brought it to the level of 50 per cent. of Note Circulation. To secure this end as soon as possible, we should renew our efforts towards the popularisation of notes. Whenever there is a demand for Council Bills, they should as far as possible be cashed in notes in India, and not in rupees. And in deference to the wishes of the people of this country, as well as to save the chances of its being invested in foreign securities or employed for other productive but easily unrealisable purposes, all this gold received for such Council Bills should in future be shipped to India to be kept here in the Paper Currency Reserve. The arguments generally advanced in favour of keeping the Gold Standard Reserve in England do not apply at all to this case, as the object of this Reserve is to secure the convertibility of note circulation. However, the gold received for that part of the sale of Council Drafts, which is done by the Secretary of State for India, to meet the Home Charges, should not be sent to India. And as I have mentioned above for the time being there should be no fresh coinage of rupees, and if there is a demand for them, it should be met from the stock in the Paper Currency Reserve. In these two ways, within a reasonable time we may be able to declare our note circulation convertible in gold.

When we have done this, we should declare the rupee as a subsidiary coin, tenderable up to say Rs. 100 or Rs. 250 and begin to send gold in active circulation. The coinage of rupees should be discouraged as far as possible.

However, so long as the rupee is allowed to continue as unlimited legal tender, it will be necessary to have a legal rate of exchange between the rupee and the gold for facilitating foreign transactions : The experience after the Babington-Smith Committee has shown that it is next to impossible to maintain the impossibly high rate of 2*s.* gold to the rupee. In his memorandum submitted to the Babington-Smith Committee (which, however, the Committee have not included in the evidence submitted before them, and which Mr. Madon has very kindly supplied to me) Mr. B. F. Madon of Bombay had pointed out that all past experience showed that wars generally led to the rise of value of silver, and that after the war, silver was not likely to maintain its high price in terms of gold; and this statement of his is supported by very interesting data. But the committee paid no heed to it. They, on the Report of Professors H. C. Carpenter, F.R.S. and G. Gilbert Cullis, D.Sc., quite unreasonably, I say unreasonably because the conclusions drawn by the Committee are not warranted by the Report of these gentlemen, took it for granted that the rise in the price of silver was going to be prolonged, with the result that the price of silver did fall, and the Government of India failed to maintain their legal rate. However, what has been done, cannot be undone and we have now to adopt a new rate. What should it be? Whether 1*s.* 4*d.* or 1*s.* 6*d.* or 1*s.* 8*d.*? We had the 1*s.* 4*d.* rate before the war, and some very big authorities, including most of the Indian writers on the subject, have been recommending going back to it. But when we study the table of quotations for demand drafts in Calcutta, and at the same time recall to our mind the fact that these quotations have been the result of free play of price levels in countries having commercial relations with India on the price level in India itself, and not the result of any serious manipulations on the part of the Indian Government then we feel that perhaps a higher rate would be better. First we notice that the downward movement in exchange that set in after February 1920, when it stood at 2*s.* 9*d.* brought the exchange down to 1*s.* 3*d.* in March 1922. After this we again find a revival, which has been continuously maintained up to the present day, and the exchange now stands at about 1*s.* 6*d.* If side by side with this recovery in the rate of exchange, we study the conditions of politics, production, trade and finance in the erstwhile belligerent countries of the west, we notice a strange but parallel movement that of gradual resettlement to normal conditions in those parts, and of the recovery of the rate of exchange in India. The presence of this parallel movement is undeniable. What are its implications? May it not mean that as new conditions created by the war will have assumed a more or less permanent character their result on India will be a new adjustment of her exports and imports, as well as of her price level within the country? And perhaps to suit all these changed factors, a higher rate, would be more natural than the pre-war rate of 1*s.* 4*d.*? And this because there is no denying of two facts : (i) that the price level in India now is certainly higher than in the pre-war year, and (ii) that in spite of a continuous decline in the post-bellum prices in European countries, the present price levels there are higher than what they were in pre-bellum days and at present stand much higher than the price level in India. In the pre-war days we had a price level in India, and we had some price levels in all those countries with which we have trade relationship. Similarly their price levels must stand to some relationship to our price level in India at present. Now if the difference to-day as between our price level in India and the price levels in those countries with which we have trade relations, be greater to-day than it was in the pre-war days, then certainly it is desirable to have a higher rate than what we had in the pre-war days. Now taking the index number of prices in India in 1914, 156 equal to 100 price level we find that the price level in India in 1923* was 133 (on the basis of 207 the index number of price in India in 1923). Similarly taking the index number of prices in the United Kingdom in year 1914 (122) as 100 we find that price level in the United Kingdom in 1923 was 162. The same is true of the United States of America and Canada with their respective Index Number for 1923 as 153 and 164. (*Vide* Tables A and B.)

From the above discussion it is abundantly clear that the relative price levels in India and some of the important countries with which India has trade relations do justify us to going in for a higher rate of exchange than we had before the war. Unless we do that the price level in India is sure to rise in response to the higher price levels in other countries. And surely a higher level of prices than what we

*This is the latest figure available.

have now, I for one, could never recommend for a poor country like India where the standards of income are so low. A lower rate of exchange than what we have now may benefit the exporting houses in big seaside cities and put in their pockets huge sums by encouraging exports of raw materials but so far as the mass of people is concerned it would have only raised the prices of their daily necessities of life for them. True, the agriculturist who has exportable surplus, is also sure to benefit, but leaving aside a few prosperous tracts in the Punjab, Bengal, Central Provinces and Bombay, where the agriculturist is likely to benefit, in other parts of India the agriculturist is so bound up with the *sahukar* that he is not likely to get any benefit out of the rise of price of his produce which a low rate of exchange is likely to bring about. Those who are in touch with rural areas, and are familiar with the methods of the village money lender and the zemindar know full well as to who benefits when the price of agricultural products rises. (For further information on this point please refer to Mr. Darling's Article on Prosperity and Debt in Punjab. in the Indian Journal of Economics, Vol. III. Part 2.)

We see then that it is both desirable and justifiable to have a higher rate of exchange than we had before the war not only because it would keep prices low for the masses, but further because it would give a better protection in future against another rise of price of silver if that event were to take place in the period when we would be preparing for declaring our note issue convertible in gold and reducing the rupee to the position of a *surrogate*. Incidentally it would also reduce the burden of Home Charges, and give relief to the various services without visible call on the Exchequer.

Arguing on the above lines one might feel tempted to take the exchange to a figure even higher than where it is now (1*s*. 6*d*.). But that would mean injustice and hardship to a lot of people in this country. True the importer of foreign articles would benefit, as well as the people with fixed incomes in their capacity as consumers, but our exporters and the producers of raw materials who have an exportable surplus would suffer loss. Here I am conscious of that argument that whatever the rate of exchange in the long run the price for a country's produce that would be paid by other countries anxious to have it, is determined by the relative cost of production of the commodities in the two countries, and therefore a change in the rate of exchange one way or the other cannot cause a permanent loss. This is true but it is equally true that in the intervening period while the adjustment to the new level will be taking place, serious injury will have been done to some interests. I am also conscious of the other argument that if people in other countries want our produce they must be prepared to pay for them. There is much truth in this, but it presupposes a certain intensity of demand on the part of buyers of a country's exportable surplus. If this intensity of demand were to remain constant then whatever the price other countries would continue to buy as much as before even at higher prices, but if it is also capable of a change then certainly their demand would decrease and the Indian agriculturist would suffer a permanent loss. During the war when the demand of foreign countries for Indian produce was very insistent we could with impunity raise the rate of exchange, but things are not expected to take the same course now. In this connection we must keep an eye on the slump in production that is now present in most of the countries which buy our goods, before we decide to raise our rate of exchange to a figure higher than 1*s*. 6*d*. the prevailing rate.

Looked at from these points of view the prevailing rate of 1*s*. 6*d*. seems to be suitable, but in future it would mean that one sovereign would be equal to Rs. 13 as. 12, instead of being either equal to Rs. 15 or Rs. 10. This parity of sovereign to the rupees would prove full of inconvenience, and there is no doubt about the unsuitability of the rate of 1*s*. 6*d*. from this point of view. But after taking all things into consideration, to me, it appears as the lesser of the two evils—either we must suffer all disadvantages of a variation in the rate of exchange if we depart from the prevailing rate, or we must put up with the inconvenience of making nice calculations.

But whatever the ratio fixed, when it is done, Government should definitely undertake to sell council drafts, as well as the reverse councils, without limit whenever there is a demand for them at a fixed rate. There should be no uncertainty and hesitation about it.

Allied to the above is the question, whether the gold in the Gold Standard Reserve should be kept in India or in England? Looking at this question from a purely economic point of view, and leaving sentiment, as well as other considerations, for the time being apart, as well as taking the practice of other

independent nations like China, Japan, Germany, France, or Belgium into consideration, I must say that it is desirable to keep a substantial part of this Reserve in Foreign Securities. The funds in this Reserve are needed to support the foreign exchange in the event of an adverse balance, and as we do not have an adverse balance every year, but very seldom, say once in 12 years, it would be wasteful to keep the whole of it in liquid gold. But this does not mean that the management of this Reserve should be in the hands of the Secretary of State, and that the whole of it should be invested in the securities of the British Government and other public and private bodies of the British Isles. The entire management of the Reserve should be in the hands of the Government of India; they should select the securities, and the liquid gold should be kept in the country itself. There are people in India who realise the wisdom and the desirability of keeping their gold reserves in foreign securities, but when they see the interests of the country sacrificed, and that in the name of sound currency policy, they cry down the policy itself. And one cannot reasonably blame them.

However, before any of these things is done it is absolutely essential that Government should definitely adopt a well-thought-out policy, be it as I have suggested above, or on some different lines, and then pursue it with determination. Public in India should know the ultimate aim, and the various steps that are proposed to be taken in the intervening period. This will create confidence in the public mind, and then there will be greater chance of the success of the scheme. One great curse of the Indian Currency System, so far, has been its dependence upon the will of the Executive, specially the Secretary of State and his financial advisers of the London Money Market, and unless this is eliminated Indian interests are not likely to receive their due consideration. The safety of the money market in London was a laudable object in the days of the Great War, when the safety of the Empire was at stake; and we in India could look upon that practice with a feeling of suppressed indignation when India was being governed as a mere dependency of the British Isles, but certainly now when the declared policy of His Majesty's Government in India is progressive realisation of Swaraj, the subjection of Indian interests, and the sacrifice of Indian sentiment, in the matter of currency policy, to the interests of London Money Market is at least out of tune, if not worse.

TABLE A.—*Index Numbers.*

Year.	OFFICIAL INDEX India.	India 1914 as base.	United Kingdom economist.	U.K. 1914 as base.	U.S.A.D.	U.S.A. 1914 as base.	Canada Dept. of Labour.	Canada 1914 as base.
1914... ...	156	100	122	100	136	100	131	100
1915... ...	153	98	130	107	135	100	143	109
1916... ...	155	100	168	138	150	110	174	133
1917... ...	160	103	228	187	185	136	227	173
1918... ...	196	126	269	220	242	178	267	204
1919... ...	340	218	283	232	251	185	281	215
1920... ...	325	208	342	248	270	199	320	244
1921	225	144	275	225	186	137	236	180
1922... ...	219	140	202	166	188	138	215	164
1923... . .	107	133	198	162	208	153	215	164

TABLE B.—*Abstract from the Table A.*

Year.	India.	U.K.	U.S.A.	Canada.
1914	100	100	100	100
1915	98	107	100	109
1916	100	138	110	133
1917	103	187	136	173
1918	126	220	178	204
1919	218	232	185	215
1920	208	248	199	244
1921	144	225	137	180
1922	140	166	138	164
1923	133	162	153	164

TABLE C.—*Exchange Rates*, 1917 *to* 1925.

Quotations for Demand Drafts in Calcutta.

Date.	1917.		1918.		1919.		1920.		1921.		1922.		1923.		1924.		1925.	
	s.	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*	*s.*	*d.*
1st January	1	$4\frac{1}{8}$	1	5	1	6	2	$3\frac{7}{8}$	1	$5\frac{1}{4}$	1	4	1	$4\frac{5}{32}$	1	$5\frac{3}{16}$	1	$6\frac{1}{8}$
15th January	1	$4\frac{1}{8}$	1	5	1	6	2	4	1	$5\frac{3}{8}$	1	$3\frac{7}{8}$	1	$4\frac{3}{16}$	1	$5\frac{5}{32}$	1	$5\frac{7}{8}$
1st February	1	$4\frac{7}{8}$	1	5	1	6	2	$8\frac{1}{2}$	1	$4\frac{1}{4}$	1	$3\frac{5}{8}$	1	$4\frac{9}{16}$	1	$5\frac{3}{16}$	1	$5\frac{31}{32}$
15th February	1	$4\frac{1}{4}$	1	5	1	6	2	$7\frac{1}{2}$	1	$4\frac{1}{2}$	1	$3\frac{5}{8}$	1	$4\frac{11}{32}$	1	5	1	6
1st March	1	$4\frac{1}{4}$	1	5	1	6	2	7	1	$3\frac{3}{8}$	1	$3\frac{1}{8}$	1	$4\frac{3}{16}$	1	$4\frac{23}{32}$	1	$5\frac{31}{32}$
15th March	1	$4\frac{1}{4}$	1	5	1	6	2	$3\frac{3}{4}$	1	$3\frac{5}{8}$	1	$3\frac{1}{8}$	1	4	1	$4\frac{27}{32}$	1	$5\frac{15}{16}$
1st April	1	$4\frac{1}{4}$	1	5	1	6	2	4	1	$3\frac{5}{8}$	1	$3\frac{1}{8}$	1	$4\frac{1}{8}$	1	$4\frac{11}{16}$	1	$5\frac{13}{16}$
15th April	1	$4\frac{1}{4}$	1	6	1	6	2	$3\frac{1}{8}$	1	$3\frac{5}{8}$	1	$3\frac{1}{4}$	1	$4\frac{5}{32}$	1	$4\frac{25}{32}$	1	$5\frac{27}{32}$
1st May	1	$4\frac{1}{4}$	1	6	1	6	2	$3\frac{3}{8}$	1	$3\frac{5}{8}$	1	$3\frac{1}{4}$	1	$4\frac{3}{16}$	1	$4\frac{23}{32}$	1	$5\frac{13}{16}$
15th May...	1	$4\frac{1}{4}$	1	6	1	8	2	$0\frac{1}{2}$	1	$3\frac{1}{2}$	1	$3\frac{3}{4}$	1	$4\frac{3}{32}$	1	$4\frac{27}{32}$	1	$5\frac{31}{32}$
1st June	1	$4\frac{1}{4}$	1	6	1	8	2	$1\frac{1}{4}$	1	$3\frac{1}{4}$	1	$4\frac{1}{16}$	1	$4\frac{1}{16}$	1	$4\frac{27}{32}$	1	$5\frac{31}{32}$
15th June	1	$4\frac{1}{4}$	1	6	1	8	1	10	1	$3\frac{1}{2}$	1	$3\frac{17}{32}$	1	$4\frac{3}{32}$	1	$4\frac{31}{32}$	1	$6\frac{1}{32}$
1st July	1	$4\frac{1}{4}$	1	6	1	8	1	$8\frac{3}{4}$	1	$3\frac{3}{8}$	1	$3\frac{5}{8}$	1	$4\frac{1}{8}$	1	5	1	$6\frac{1}{16}$
15th July	1	$4\frac{1}{4}$	1	6	1	8	1	$9\frac{7}{8}$	1	$3\frac{1}{4}$	1	$3\frac{3}{32}$	1	$4\frac{1}{8}$	1	$5\frac{3}{32}$	1	$6\frac{1}{16}$
1st August	1	$4\frac{1}{4}$	1	6	1	8	1	$10\frac{3}{4}$	1	$3\frac{1}{2}$	1	$3\frac{27}{32}$	1	$4\frac{1}{16}$	1	$5\frac{15}{32}$	1	$6\frac{3}{32}$
15th August	1	$4\frac{1}{4}$	1	6	1	10	1	$10\frac{1}{2}$	1	$3\frac{7}{8}$	1	$3\frac{5}{8}$	1	$4\frac{1}{16}$	1	$5\frac{1}{32}$	1	$6\frac{3}{32}$
1st September	1	5	1	6	1	10	1	$10\frac{1}{4}$	1	$4\frac{3}{4}$	1	$3\frac{17}{32}$	1	$4\frac{5}{32}$	1	$5\frac{7}{32}$	1	$6\frac{5}{32}$
15th September	1	5	1	6	1	10	1	$10\frac{1}{2}$	1	$4\frac{1}{8}$	1	$6\frac{9}{16}$	1	$4\frac{5}{32}$	1	$5\frac{7}{16}$	1	$6\frac{5}{32}$
1st October	1	5	1	6	2	$0\frac{1}{4}$	1	$9\frac{3}{8}$	1	$5\frac{1}{2}$	1	$3\frac{9}{16}$	1	$4\frac{9}{32}$	1	$5\frac{25}{32}$	—	
15th October	1	5	1	6	2	$0\frac{1}{4}$	1	$7\frac{1}{2}$	1	$5\frac{3}{8}$	1	$3\frac{5}{8}$	1	$4\frac{3}{8}$	1	$5\frac{31}{32}$	—	
1st November	1	5	1	6	2	$0\frac{1}{4}$	1	$7\frac{3}{8}$	1	$4\frac{5}{8}$	1	$3\frac{11}{32}$	1	$4\frac{25}{32}$	1	6	—	
15th November	1	5	1	6	2	$0\frac{3}{4}$	1	$7\frac{7}{8}$	1	$4\frac{1}{4}$	1	$3\frac{25}{32}$	1	$4\frac{27}{32}$	1	$5\frac{27}{32}$	—	
1st December	1	5	1	6	2	$3\frac{1}{8}$	1	$6\frac{3}{8}$	1	4	1	$3\frac{29}{32}$	1	$5\frac{5}{32}$	1	$6\frac{1}{16}$	—	
15th December	1	5	1	6	2	4	1	$5\frac{1}{8}$	1	$3\frac{7}{8}$	1	4	1	5	1	6	—	

APPENDIX 15.

Statement of evidence submitted by Mr. Gyan Chand, M.A., Professor of Economics, Benares Hindu University, Benares.

I.

In view of the necessity of finding an abiding basis for the reconstruction of the Indian Currency System, it will perhaps be helpful to preface this Memorandum by a statement of the requisites of a good currency system in order that the suggested remedies of our currency difficulties may be examined by reference to the first principles. The first requisite of a good currency system is, of course, that it should enjoy the confidence of the people. A currency system which is not acceptable to the people for whom it is intended cannot, whatever its other merits, work well. This does not, however, rule out the possibility of a people being educated in the use of a better system than the one to which they are accustomed or have preference for. The paramount importance of a currency system giving stability of purchasing power, both internal and external, is now taken for granted by every student of the subject, and it is also further admitted that if the choice lies between having stable internal prices and unvarying rate of exchange, the former alternative should be accepted on account of its manifest advantages. The need for stability cannot be satisfied without making the currency system flexible as far as possible. Economic life of every nation is subject to fluctuations, and should, if it is sound, expand as a matter of course, for all-round national progress requires a strong material basis. This consideration suggests the desirability of introducing an element of what is generally called elasticity in every currency system. The word connotes two different things which ought to be distinguished from each other. There are the seasonal and periodical fluctuations, which have to be provided for. The volume of currency should be capable of being easily increased or decreased in response to the changes of economic activity and the extent of variations should neither be in excess nor fall short of the need for them. The economic progress further requires that the circulating media of the country should continuously increase to make it possible for an economic system to work without friction.

On account of the growing complexity of economic life, these two objects cannot be realised without an intelligent direction of affairs. A plea for a policy of *laissez faire* should have as little weight in currency matters as it has the other spheres of social life. No currency system can be made fool-proof or knave-proof, and the only adequate safeguard against the ignorant or deliberate perversion of a currency system is an enlightened public opinion alive to the profound importance of excluding the use of all devices, which, we know from experience, eventually react adversely on national life. The maintenance of a sound currency system, like that of every other vital activity of social life, means an outlay of national resources, which should be economised in every possible manner. This can be done by reducing the use of metallic money to the minimum and extending that of the credit instruments. It is in this connection necessary to emphasise the distinction between currency and capital. Every measure of economy increases the potential supply of capital, and use of less expensive or inexpensive media of exchange has the same effect. But it is vain to expect an increase of capital from the working of a currency system itself. The soundness of the latter is an essential condition for the growth of national income, which is the source of all capital, but all proposals which seek to find funds for trade and industry by the reorganisation of our currency system, involve inflation in disguise, and should in the national interest be denounced. A good currency system should make it possible for us to mobilise our liquid resources and increase the turnover of our currency; but it should be recognised that the problem of increasing our capital resources is distinct from that of providing a suitable currency for the country. Scarcity of capital is often misinterpreted as scarcity of currency, and attempts are made to ease the situation by multiplying the latter while the real remedy should be to increase the former. The confusion between currency and capital is responsible for a great deal of loose thinking, and has to be avoided. This introductory paragraph may be concluded by pointing out the obvious necessity of devising a currency system best suited to the economic and social structure of the nation. It is necessary to reconstruct our currency system on a sound basis, but it would be unwise to ignore the limitations inherent in the very nature of things, or press sectional or narrow standpoints in the consideration of the question. Pecuniary calculus being essential for exchange economy, it is of very great importance to develop the currency system in conformity with the requirements of the economic organism.

II.

2. The considerations referred to above may appear somewhat academic, but it is necessary to put them in the forefront of the discussions of our currency problem. Every currency system must have a standard of value. An ideal standard, which may be an unvarying unit of value, is conceivable, but is not within the domain of practical politics. The standard of value must, for a long time to come, be a constant weight of gold or silver. Silver standard or bimetallism being of no practical importance, the possibility of their introduction need not be seriously considered. For us the choice lies between Gold Standard and Gold Exchange Standard. The latter system, it is generally assumed, has been discredited by events, and it would be wrong to re-establish it. But most of the arguments generally urged against it are mistaken. The strongest arguments used against the system are its inability to maintain a stable rate of exchange, and the great rise in the level of the Indian prices during the period that it remained in operation. The Exchange Standard that fails to restrict the variations of the rate of exchange within very narrow limits ceases to fulfil its essential function. But the weakness of exchange in 1907 and then in 1914 was not due to the Exchange Standard, but unwillingness on the part of the Government of India to accept the liability of managing it to the full. They have never accepted the responsibility of converting rupees into gold even for the discharge of our international obligations. The Chamberlain Commission and Babington-Smith Committee both pointed out the necessity of authorising the Government of India to sell Reverse Council Bills without any limit, and if their sale had been "on the tap" on the occasions referred to above, the rate of exchange would not have fallen below the gold point. The breakdown of the Exchange Standard in September, 1920, is due to causes which it is not necessary to discuss here, but the fact that it went out of action under conditions, which would have meant a very severe strain for any system, is not a conclusive argument against it. A currency system should not merely be a "fair weather" scheme, but a

system which will work successfully in spite of the cataclysm of a world war has still to be discovered. The fact of the matter is that the full implications of the Exchange Standard were not understood by the Government of India till 1914, and since then the war and its aftermath have created circumstances that have made it impossible for the authorities to give it a fair trial. The stabilisation of the rate of exchange is a difficult task, but it is not right to condemn the principle of the Exchange Standard on account of its unfortunate career in India since the outbreak of the war.

3. The rise of prices in India since 1900 is another serious charge that is brought against this system. The rise in itself would not be a matter of special significance since it is a world-wide phenomenon. But it is contended that the rise in India is higher than elsewhere, and the fact is due to the working of the Indian Currency System. The currency notes and rupees were not convertible into gold for internal purposes. The currency history of the world shows that the use of inconvertible money invariably leads to its over-issue. Since 1900 about 350 crores of rupees have been coined and issued by the Indian mints. The active circulation of notes has increased from 22 crores to 166·5 crores and the absorption of small coin, which, we are told, ought to be taken into account in calculating the effective circulation of currency, has also considerably increased. In view of the very great rise of prices the conclusion, according to this view, seems to be irresistible that the Indian Currency System has led to over-issue of currency and its depreciation in terms of commodities. This charge cannot be sustained with regard to the war period, as there are very few countries in the world where the prices have not risen as high, if not higher, than they have in India. But it is maintained that during the pre-war years rise of prices in India was much greater than elsewhere, and was directly due to the inflation of our inconvertible silver and rupee currency. The facts on which this conclusion is based may be briefly stated. Taking 1890-94 as the base the Index Number shows that while prices in India rose to 156 in 1914, the prices in the United Kingdom and the United States of America, taking these two countries as the representatives of the whole world, rose to 124 and 127 respectively during the same period. Since 1900 the circulation of rupees increased from 130 to 191 crores and active circulation of currency notes from 22 to 50 crores. It is difficult to gauge the effect of the increase of bank-clearings on prices in India. They cannot have affected the prices anything like the extent to which their amount increased during the period in question. But the fact that they increased from 212 to 615 crores may be admitted to have contributed in some measure to the rise of Indian prices in the pre-war years. The rise of about 56 per cent. in prices and more than 60 per cent. in the circulation of currency points to the existence of some connection between the increase of currency and depreciation of money. But the existence of this connection cannot be held as a conclusive argument against the Exchange Standard from the standpoint of the stability of prices. The decennial average of the balance of trade in India in 1894-95 was about 31·5 crores. It increased to 38·9 crores in 1904-5 and to 57·9 crores in 1914-15. Part of the balance was liquidated by increase in the net import of gold and silver, the decennial average of which was 12·04 crores in 1894-95, 13·6 crores in 1904-5, and 31·7 crores in 1914-15. The only way in which the remaining balance could be adjusted, taking the foreign investments as being out of question, was by the increase of domestic currency. Even if India had had what is generally called effective Gold Standard, this increase could not have been prevented, and the fact that this increase took the form of gold coins, paper currency, and rupees instead of gold coins and paper currency makes no material difference so far as the question of inflation is concerned. During the war the countries like the United States of America and Sweden were considerably embarrassed on account of the influx of gold, which was, as is well known, due to the inability of the belligerent countries to pay for their imports by exports. There was inflation in these countries, but it was due to causes with which the standard of value of countries concerned had nothing to do. In India from 1900 to 1914 the exports increased much faster than the imports, and, in spite of heavy imports of the precious metals, there remained a balance to be adjusted, which made the increase of currency inevitable. No one has blamed Gold Standard in America for the rise of Index Number of prices from 100 in 1913 to 226 in 1920, and the Exchange Standard is as little responsible for the increase of the Indian prices in the pre-war years as Gold Standard is for that of American prices during the war and post-war years. A creditor country must either increase her imports of commodities or of securities and money. India during the pre-war years exported securities instead of importing them,

and as her increase of import of commodities, including precious metals, did not keep pace with her increase of exports, she had to square up her international account by the expansion of her currency. Apart from the possibility of the Indian rupee having been undervalued in 1900, when the rate of 1*s*. 4*d*. was adopted as a permanent measure (a fact which the critics of the Exchange Standard have not even taken into account) and therefore exports having received an artificial stimulus, about which something is said a little later, there is no connection between the working of the Exchange Standard, such as we had in India before the war, and the rise of prices during the years in which it was being unconsciously evolved as the result of "a series of experiments."

4. This argument leaves unnoticed the contention on which the charge mentioned above rests, that the Exchange Standard not being automatic, the currency in India could be expanded but not contracted easily, when the changes in the trade conditions made the latter course desirable. It is claimed that if India had gold currency she in times of slack trade would have exported gold or otherwise melted and withdrawn it from circulation, which alternative was not open to her on account of the intrinsic value of silver rupees being lower than its nominal value. Rupees as it is figuratively put, could easily be pumped in but not pumped out. It is a good figure of speech, but obscures the issue a little. The export of gold would have been necessary if the balance of international accounts was against India, but as throughout this period, with the exception of 1907-08, the value of Indian exports was much higher than her imports (even making allowance for her invisible imports) the question of the contraction of currency on account of the need of heavy payments abroad did not and could not arise. The only other way in which gold in circulation could have been withdrawn from its use as money was by its increased consumption in arts and for social and religious practices. India, during the period from 1900 to 1914, imported gold worth 208·98 crores, most of which went into hoards or was used for ornaments; and it is idle to suppose that the consumption of gold would have increased if India had had more gold in circulation. The line of argument is based on the mistaken assumption that the expansion of currency was necessitated by increase in demand during the busy season and ought to have been contracted when that need was over. The real cause of the increase of currency was, as already stated, the rising balance of trade in India's favour, which could not liquidate in any other way. The Exchange Standard before the war did not give us stability of prices or provide for temporary expansion of currency, but it is wrong to attribute this defect to the absence of a larger volume of gold in circulation or inconvertibility of rupees and notes into gold. The departure from the recommendations of the Fowler Committee, which is often spoken of as a grave offence of the Government of India, may be taken exception to on the ground that the latter drifted into a position the full significance of which it failed to appreciate on account of the absence of a well-defined currency policy; but a stricter adherence to their letter and spirit would not have given us a more stable level of prices or relieved the seasonal stringency in the Indian Money Market. Marshall's well-known analogy that stable exchange is something like bringing the railway gauge of the country in unison with the main line is often quoted in the writings on Indian currency questions, but its full bearing on our economic life is generally overlooked. The commercial contact of India with the world has since 1900 become much closer than before, and the presumption is that the lag of the Indian price level behind the level of world prices has been made up during the period. This fact in itself would go a long way to account for the higher rise of prices in India than elsewhere before 1914, which is so often laid at the door of the Exchange Standard; but as it is difficult to give any statistical evidence in support of the conclusion, it is not given prominence in pointing out the erroneous nature of the arguments used against the pre-war Exchange Standard in India.

5. There is one other argument which deserves a passing notice in this connection. It is held that the Government of India in assuming the rôle of the Exchange Banker and undertaking the responsibility for providing currency for the growing volume of business went beyond the limit of its legitimate functions, and has, therefore, erred grievously in handling the currency problems of the country. It is not necessary to sit in judgment upon the Government of India and assess its responsibility for the creation of the present difficult position. Some serious mistakes have been committed, and a few of them could perhaps have been avoided if our currency system had been free from bureaucratic control. But it would be wrong to argue against the re-introduction of the Exchange Standard on the ground that the Government officials have already

been tried and found wanting in this respect, and cannot be entrusted with the duty of managing a "managed" system of currency. It is possible to safeguard against repetition of the errors of the past by providing for a closer association of banking, business and other interests in the management of the currency system. But it is not possible to avoid an intimate contact of the Treasury with its working. The Finance Departments in all countries have been drawn into the very centre of the currency ambits of their respective countries. That is partly due to the exigencies of the war finance, and the need of the speedy liquidation of all outstanding issues, which have been bequeathed by it; but it is mainly due to the need of regulating the currency system in the interest of the community as a whole. Economic Liberalism is an outworn creed, and the demand for "automatic" currency is an attempt at reviving it in a sphere, in which organised action, with its many limitations, is of utmost importance. The close association of the Government with the currency system is inevitable, and the fact that the Exchange Standard presupposes the existence of a regulatory authority is not, as is often assumed, a strong argument against its adoption in any country.

III.

6. The pre-war Exchange Standard does not afford us any arguments against itself. But it does not thereby carry its own recommendation. The one thing to its credit is the fixity of exchange for a period of 20 years, but that does not make it an ideal system of the future. Its most ardent advocate—Mr. J. M. Keynes—has admitted that a fixity of exchange when the prices in India and elsewhere are rapidly changing is more an element of weakness than of strength. The pre-war system therefore may practically be ignored in the consideration of the question of the future. The considerations which have to be taken into account in this connection are comparatively simple though they carry in them difficulties of fundamental character. The success of an Exchange Standard depends upon, to use the happy phrase of Sir Basil Blackett, the selection of a rate which is attainable and maintainable. It sums up very well the conditions which are essential for the successful working of the Exchange Standard. The first condition requires that the rate chosen should neither undervalue nor overvalue the rupee. There should be no disparity between its internal and external purchasing power. An error in either direction will not necessarily paralyse our trade or make it prosperous, but it will have the tendency to give it a turn which it otherwise would not take. The only criterion which can be used in the choice of the rate is the comparison of the Index Number of prices in India and in other countries, with which she has got active trade relations. Among the latter the most important are the United Kingdom, British Dominions, United States of America, Japan, France and Germany. The currencies of all these countries, except France, are in a fairly satisfactory condition. A comparison of the Indian prices, taking 1913 as the base, with the prices of these countries shows that the value of rupee is not very different from the value of their currencies. The price level in Japan is considerably higher than the Indian price level, but her trade with India is about 10 per cent. of the total international trade of the latter and may, therefore, be taken as relatively unimportant in the choice of the rate of exchange between rupee and gold. It would appear that if Index Numbers can be relied upon for this purpose, reversion to the pre-war rate would not lead us very much astray. The proviso regarding the reliability of Index Numbers is, however, important. Price indices are constructed by taking the mean of a series of means and are not an exact measure of the general price movements including the cost of services of various kinds. It is necessary to proceed very warily in basing any conclusion on their comparison, and even the most elaborate calculation, which would require careful and complicated examination of the available materials with the use of difficult mathematical devices, will not eliminate an element of arbitrariness in the selection of the rate. Whether the selected rate would turn out to be appropriate to any given price level, is a matter with regard to which it is not safe even to venture a guess. In India the question of the selection of the rate is rendered more difficult on account of two other considerations which have to be taken into account. If the Exchange Standard is to work in India, the gold value of the rupee should be high enough to keep it a token coin in spite of the upward movements in the price of silver. The Babington-Smith Committee, as is well known, attached very great importance to the consideration and in recommending 2*s*. rate for the stabilisation of rupee in gold was mainly guided by its forecast of the

likely changes in the movement of the price of silver. The movements in the price of silver have so far proved very tricky, and though for the present it seems to have settled down between 30*d.* to 36*d.* per oz., its future movements are a matter for speculation, and cannot be predicted with any degree of certainty. The margin, however, between the gold price of silver and pre-war rate of exchange is not wide enough to set at rest the apprehension regarding the possibility of the rupee ceasing to be a token coin. The selection of the rate which will correctly express the rates between the Indian and the world prices is difficult enough, but to make this rate correspond to the rate which will make the gold value of the rupee independent of the movements in the price of silver is well-nigh impossible. The changes in the purchasing power of currencies are in no way connected with the changes in the price of silver, and the divergence of the rate required by the relation of the former from that which will have to be adopted if the rupee is to remain a token currency, may be taken for granted. The fact that in our domestic currency the silver rupee with a high intrinsic value occupies such an important position handicaps us still further in the selection of a suitable rate. The other consideration which is significant in this connection is the influence of the balance of trade on the rate of exchange in India. The view, which is now generally in favour with the theorists, is that the balance of trade, apart from its effect on the temporary fluctuations on the rates of exchange, is not an important factor in the determination of the foreign exchanges. There is an element of truth in this view, and in the long run it may be assumed that if the other conditions which make for stability of exchanges are present, the balance of trade can be left alone to look after itself. But in a country like India over periods long enough to matter, the influence of trade on foreign exchange cannot be left out of account. The Indian economic life is very precarious on account of its extreme dependence on the adequacy and seasonableness of the rainfall, and her ability to hold her own in the world markets is determined by the annual production of raw materials which constitute the bulk of her exports. In spite of a steady price level and low exchange—a condition which is generally supposed favourable for her exports—India may suffer from a sudden contraction of her purchasing power on account of the failure of the monsoon, and that fact more than anything else may set up such a severe drain on her means of meeting her liabilities abroad as to defy all calculations of the purchasing-power-parity theorists. This adverse contingency occurs at least once in ten years but two or three years of successive droughts have not been unknown. But besides the variations in her own annual output of exportable goods, changes in the economic life of her customers have also to be reckoned with. Our recent experience in this respect is somewhat abnormal on account of the upset of economic conditions throughout the world in 1920, but with the restoration of normal conditions the cyclical fluctuations of trade will remain, and if unfavourable trade conditions elsewhere synchronise with a bad agricultural year in India, the strain on the resources, on which we must mainly rely for attaining the selected rate of exchange, may prove unbearable. India has had four years of good monsoon and the world has been plodding upwards on the painful path of economic recovery. There is room for qualified optimism, but it is not reasonable to think that no mishap will occur within two or three years to endanger the success of our enterprise, if we now set ourselves to the task of exchange stabilisation. We need not anticipate the recurrence of the condition of 1920 when our favourable balance of 49·76 crores in 1919-20 was changed into an unfavourable balance of 88·39 crores in the course of a few months, but we will be bad students of our trade history if, having selected a rate suggested by any accepted formula, we take it for granted that the balance of our international account will not matter. But it may be contended that every period of transition has its risks, and even allowing for a moderate error in the selection of the rate, we may be able to tide over it if we have a substantial reserve of gold or its equivalent at hand, and the forces of nature and economic life do not conspire together to frustrate the attempt. Once the system has been set going for a number of years, it will be established on a self-regulating basis, and it will not be necessary to watch its working with anxious care. But it is now accepted that for stability of exchanges stability of prices is an essential pre-requisite. Flux referring to the delusion that official decree can fix the rates of exchange compares the notion to an attempt to prevent the temperature of a room from altering by preventing changes in the thermometer which indicates it. The Genoa Conference, in whose deliberations the Exchange Standard was so much in prominence, postulated the stability of the value of gold as an essential condition for the success of their proposals. In Resolution 11

they said that "currency will be regulated not only with a view to maintaining the currencies at a par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold." They were of opinion that the Central Banks of Europe would have to act in close concert with one another in order to stabilise the prices and regulate their credit policy not with reference to their gold reserves, but to the changes in the price levels of the countries concerned. The proposal has remained a pious wish, and there are no signs on the international horizon of its being implemented in the currency policies of the leading countries of the world in the visible future. Their fruitless deliberations have, however, emphasised the importance of the stability of prices for the working of the Exchange Standard. To maintain a rate of exchange, which may once be attained, it is essential that prices inside the country and outside it should not differ by more than relatively small amounts which, to quote Gregory, produce self-regulatory effects. During the war India was called upon to make a very heavy sacrifice on account of the pegging of sterling-rupee exchange. She was practically forced to raise her prices and inflate her currency as a measure of war service. The sterling-dollar exchange was pegged, but the way it was done was different from the way that sterling-rupee exchange was pegged. In order to prevent the fluctuations in the sterling-dollar exchange, England had to export gold, commandeer securities, control imports, and float loans in America. She found herself under the necessity of taking initiative in the matter, as otherwise she would not have been able to import war necessaries or maintain the exchange value of sterling—a desideratum which became very important in view of the prevailing belief that the fixity of exchange was essential for the internal financial soundness of a country. Messrs. Morgan and Co. were placed with funds to buy all foreign bills drawn on London at a fixed price. In India the Exchange Standard made it unnecessary for England to take any steps for the pegging of sterling-rupee exchange. That made it possible to force India to receive payment in the form of external credit against which the Government currency notes were issued. The process was much simpler, but not in the interest of India on that account. The rise of prices in India was, as Mr. Lucas pointed out in the evidence before the Currency Committee of 1919, due to the fact that the rupee-standard of value in India was mechanically linked to the sterling by the pegging of rupee-sterling exchange. Depreciation of the monetary unit was one of the most onerous services which India had to render during the war, and without saying anything about the equity or otherwise of requiring her to make this contribution, it is necessary to point out that this experience reinforces the argument in favour of the stability of prices as an essential condition of the stability of exchanges.

7. India is not in a position to prevent variations in the purchasing power of her currency. Of the two schemes that are in the field, assuming for the sake of the argument their soundness, neither one nor the other can be made effective in India. The bank-rate of the Imperial Bank has practically no effect on Indian prices and a wise discount policy cannot, therefore, be of any use for the purpose. According to Dr. Fisher's plan rupees will have to be exchanged for varying quantities of gold bullion. That besides entailing frequent fluctuations in the rates of exchange, which will defeat the essential purpose of the Exchange Standard, will not produce the desired effect on Indian prices. But even if the changes in the price level of India were to cease it will not be possible to counteract the disturbing effect of changes in the world prices. England has, by returning to Gold Standard, shelved all proposals for manipulating the currency for preventing the changes of price-level. The Federal Reserve Board has disavowed the intention attributed to it of bottling up gold for reducing the price movements, and is not likely to pursue any policy of price stabilization. Other countries are anxious, as Professor Pigou has pointed out, to find the firm ground that they have left behind rather than seek to realise some new Utopia. Gold may be a barbarous relic, but the people would rather trust it with all its vagaries than the Governments which, they think, have betrayed them woefully so very recently. This prejudice is regrettable, but it does exist and makes the chances of having a world level of prices, which will vary only within narrow limits so very remote as to make us despair of the Exchange Standard, if the ratio on which it rests cannot be maintained without stable prices on either side. It may, of course, be urged that sudden and violent changes in the price-levels will soon be a thing of the past. Changes in prices will occur, but the corrective process implicit in the Exchange Standard will be adequate to meet the situation that they may give rise to. It is very difficult to foretell the future, but phrases

like "the world being on the edge of a volcano" and "rumbling of the times" have acquired currency and indicate the presence of a general feeling that the worst is not yet over. It is desirable to hope that all will go well with the world and disruptive forces will be effectively held in check by the good that there is in men; but it is also possible that events may take their own course and rapidly produce stresses at least comparable to the major stress of war itself. It is not safe to count upon the increasing stability of currencies when there is so much instability in the world.

IV

8. It is not fair to expect greater stability of prices from Exchange Standard than from Gold Standard, but a reasonable stability of prices is more essential for the former than for the latter. It is under these circumstances advisable that India should endeavour to have Gold Standard. For Gold Standard the identity of circulating medium and the standard unit of value is not essential, or, in other words, it is possible to have Gold Standard without gold currency. But it is essential to realise three conditions before Gold Standard can be said to be established. The most important condition, of course, is that the value of the currency should be kept at par with gold. The next in importance is the redemption of rupees and notes in gold. Then comes the necessity of having certain gold reserves as covering for the currency in circulation. Leaving the cardinal question of the rate at which the parity between rupees and gold should be established out of account just for a while, the prospect of fulfilment of other conditions may be considered. The average active note circulation in 1924-25 was 160·91 crores, and, according to Mr. Findlay Shirras, the circulation of rupees amounted to 228 crores in 1919. Since 1919 about 34·5 crores of rupees appear to have been withdrawn from circulation. The total circulation of rupees and notes may very roughly be taken as 356·5 crores. Sir David Barbour once said that a stock of gold equal to one-fifth of the total quantity of rupees and notes in circulation will do to maintain the Gold Standard. We have at present 22·32 crores of gold, 20 crores of short-dated sterling securities in Paper Currency Reserve and about 60 crores of sterling securities in Gold Standard Reserve. That gives us, if the securities are sold, about 100 crores of gold. There are, besides, 70 crores of rupees in the Paper Currency Reserve, which can be converted into gold in two or three years. We can in this way accumulate about 50 per cent. of gold as a cover for the combined circulation of rupees and notes. It is a very good proportion, and it should, in a normal year, when India has its usual favourable balance of trade, be possible for the Government of India to assume the liability for the redemption of rupees and notes into gold at a selected rate of exchange. The Government of India has since 1893 refused to accept the obligation to find gold in exchange for rupees and notes, for it was afraid of bringing thereby an amount of demand into existence which it might not be in a position to satisfy. Since 1835, 647·56 crores of rupees have been coined and issued from the Indian mints, and more than two-thirds of this huge amount have gone out of circulation. What has happened to them is not known, but supposing even half of them are in hoards, and can be presented for conversion into gold, the Government of India will find itself in a very embarrassing position. This apprehension is based on the assumption that the Indians prefer gold to rupees and will avail themselves of the opportunity of exchanging the latter for the former as soon as the Government undertakes the liability to give gold for rupees. The demand for gold can arise either for hoarding or for currency purposes. The introduction of gold currency will not affect the people's demand for hoarding. We are now importing an enormous quantity of gold every year and may be expected to do so in the future, no matter whatever the system of our currency. People who prefer to hold their hoards in silver rupees will not change them into gold unless the official rate is more favourable that the market rate. They can get all the gold that they desire, and convertibility will not make them more keen to do so. India's demand for gold as currency is bound to be limited for years to come. The currency most generally suitable for our internal needs must consist of rupees and notes. Even if the introduction of Gold Standard leads to increased demand for gold currency, the facts of economic life will make themselves felt soon after, and gold will return from circulation. The drain that may arise at the initial stages of the establishment of Gold Standard can very well be met from the large stock of gold that can be made available by the conversion of rupees and securities in the Paper Currency and Gold Standard Reserves into gold. The Chamberlain Commission took special pains to point out how in 1900 the Government of India, in spite of its earnest efforts to increase the circulation of gold in India, found itself under

the necessity of resuming fresh coinage of rupees, because most of the gold coins soon made their way back into Government's hands, and came to the conclusion that India neither demanded nor required gold for purposes of circulation. The fact that India is not likely to require gold for circulation under any circumstances is not an argument against but for the establishment of Gold Standard. It will make it possible for us to economise the use of gold to a very large extent, realise the object to which the Chamberlain Commission rightly attached very great importance, viz., the centralisation of gold reserves, and simplify the exchange problem very largely. One of the reasons which has stood in the way of the introduction of Gold Standard in India is the dread of the London Money Market that the measure would involve a draft on the world's supply of gold, which will cause serious inconvenience to the monetary systems of other countries Apart from the ethics of the question which requires that India as a creditor country should not surrender her unquestioned right to take at discretion as much gold as she may desire in payment of her trade balance, it is necessary to point out that this fear is imaginary. India wil require a large quantity of gold for hoarding under any currency system, and so long as the world requires the raw materials which India can supply, it will not be possible to withhold from her the share of gold to which she is entitled, if she chooses to take payment for her commodities in that form. Since 1919 the absence of Gold Standard has not prevented her from importing gold to the value of 160 crores, which is more than the annual output of gold in the world. It is bad for India to utilise her economic resources in this unproductive manner, but she cannot be saved from the consequences of her own folly, by the efforts of any outside agency, much less of those who have an interest in preventing the inflow of gold into India. The currency demand for gold in India will not be very large even under the Gold Standard and need not cause any uneasiness to those who are anxious to conserve the world's supply of gold or to the Government of India in assuming the liability of giving gold in exchange for rupees and notes. The transition from the present system to Gold Standard requires the exercise of caution and forethought, but it can be made without any undue strain provided a suitable rate of exchange can be selected as a basis for the future.

9. The solution of the problem, therefore, turns on the selection of the rate at which purchasing power of currency is to be maintained at parity with that of gold. The difficulties of selecting a good rate have already been briefly referred to, but in view of the great interest which is being taken in the question it is worth while to examine it a little more fully. The pre-war rate of 1*s.* 4*d.* has been insistently demanded by one section of the public, which, however, claims to speak on behalf of the whole community. It is said that stabilisation of the rupee at a rate higher than 16*d.* will be an act of fraud and practically amount to debasement of the rupee. It is not necessary to examine this contention in detail, for according to it the gold value of the rupee will have to be kept fixed, whatever may be the changes in the gold value of silver or the relation of internal and external purchasing power of the rupee—a state of things which may give us a fixity in the gold value of our currency, but will upset the whole equilibrium of economic life, and produce violent oscillations in the working of the forces on the inter-play of which real stability must depend. But in view of the importance attached to it, it will be useful to refer very briefly to its history in order to see how it worked its way to its pre-war position and whether we are bound to revert to it. The history of exchange prior to 1873 is not of any practical importance from this standpoint. During the period from 1873 to 1893 in the proposals put forward for escaping from the inconveniences of falling exchange, a number of rates varying from 18*d.* to 24*d.* were suggested, and in 1892 the Government of India wanted to take power to declare gold sovereign legal tender at a rate not less than Rs. 13½ per sovereign, which would have prevented the exchange from rising above 1*s.* 6*d.* But the Herschell Committee wanted to set a limit to the rise in the exchange value of the rupee, and provided for the issue of rupees at the mints in exchange for gold at the rate of 1*s.* 4*d.* per rupee, though they made it quite clear in paragraph 151 of their Report that it was not essential to their plan that the rates should never be fixed above 1*s.* 4*d.* and recommended that the Indian Government, with the sanction of the Secretary of State, be authorised to raise the ratio if the circumstances arose rendering it proper or necessary to take that step. Sir David Barbour in his speech introducing the legislation for carrying out their recommendation laid stress on the provisional nature of the ratio, and intimated that a permanent rate of exchange would be provided for by future legislation and in the light of future experience. The first time that the 1*s.* 4*d.* rate became a practical issue in the history of the Indian exchange, no one seemed to attach

any special importance to it, and the question was left open on account of inadvisability of fixing it permanently. The Fowler Committee was divided over the question of the sterling rate for the rupee, but the majority of the members were of opinion that the experience of the preceding 6 years justified the adoption of 1*s*. 4*d*. ratio. For this recommendation they gave three or four reasons. One was that for ten months prior to the submission of their Report this rate had been maintained. It was stated that though the limit of 1*s*. 4*d*. for the rupee was declared to be merely provisional, it had been regarded generally as a permanent rate at which the Indian monetary standard was to be transferred from a silver to a gold basis. They further assumed that 1*s*. 4*d*. being the rate "of the present day" the prices in India had adjusted themselves to it, and the adoption of a different rate would cause a distinct and, in their opinion, mischievous disturbance to trade and business. The Secretary of State accepted the view of the majority "in the light of the experience of the last 18 months." That was on the 25th July, 1899. The 1*s*. 4*d*. rate was thus given a place of honour in our currency system—a place to which, we are told, it should be restored. In spite of the explicit statement of the Herschell Committee and the Finance Member regarding the tentative character of the ratio, the majority convinced itself that any departure from it would almost amount to a breach of faith. From 1897 to 1899 the index number of price-level in India fell from 113 to 96 to rise again a year later to 116, and still the assumption that the Indian price-level had adjusted itself to their favoured rate was supposed to be warranted by facts. During the same years the price-level in Great Britain, which also should have been taken into account in considering the question of adjustment, varied from 62 to 75 according to the Saurbeck Index Number. In paragraph 66 of their Report, while referring to the proposals to fix the rate from 1*s*. 1½*d*. to 1*s*. 6*d*., they pointed out that all of them were arbitrary and would involve a dislocation "of the existing rate between rupee prices and sterling prices." Of all the possible rates only the rate recommended by them was to be taken as expressing the real rate of exchange between Indian and world prices, and it had, besides other advantages, the merit of being "the rate of the present day." The rate which has acquired such an importance for some of us, that they cannot wait even for the award of the Currency Commission for its re-introduction, was made the basis of our currency for such reasons. It is risky to make much of the purchasing-power-parity formula, but if it is of any utility, it appears that the rupee was overrated in 1900 and its external purchasing power remained higher than its internal purchasing power till 1924-25 with the exception of two or three years. This fact should have, on theoretical grounds, stimulated imports and discouraged exports. But this, as we know, has not taken place. It may be incidentally mentioned that if the rupee had been underrated in 1900, the Exchange Standard could have been, according to this theory, rightly held responsible for the expansion of our currency in the succeeding years. But these assumptions are so very hypothetical that it is not worth while to press the point in either direction. It may be contended that even if the rate was not chosen with sufficient care, the fact that it remained operative for about two decades is a very strong argument in its favour. This argument would be valid but for the fact that the rate ceased to be operative about 10 years ago, and during the interval the world war has made all the difference. Revaluation of all values—including the value of Indian currency—has become necessary, and it would show an irrational attachment to the past to insist on the adoption of this ratio merely because it was our rate in 1914. A great deal of nonsense is talked about the gross inequity of the proposals to raise the rate of exchange above 1*s*. 4*d*. to the debtors, poor consumers and the tax-payers, because the rupee, being a token coin like the shilling, ought to have a constant value in terms of gold. The outstanding contracts which were entered into 10 years ago cannot be very many, and the injustice, if any, to the parties concerned is due to the rise of prices and not the rise of the rate of exchange; and the right method of redressing it is not to restore the pre-war rate of exchange, but the pre-war level of prices, an alternative which would be less acceptable to those whose main reason for asking for the 1*s*. 4*d*. rate is to get easier accommodations from the banks by the immediate expansion of currency. The rupee is not a token coin like the shilling, but an inconvertible currency note printed on silver. It is money of account, and the debtors and creditors have a square deal, if they make and receive payment in it. The conditions have radically changed since 1914, and a large number of persons have undeservedly suffered or been benefited by the process. But it is not possible to straighten out things by fixing the rate of exchange or even the prices at a

particular level. The suffering has already been gone through and unmerited benefits derived, and it is not necessary for the currency reformer to increase his difficulties by taking upon himself the task of dealing out justice with an even hand to all who have been affected by the monetary changes. The question of the rate of exchange should be considered in the light of present circumstances, and the only factors which need be taken into account are those which have a bearing on the existing situation and its future developments.

10. The question of the rate of exchange on exports and imports may here be considered. This is a vexed question in the real sense of the word. It has been a source of acute controversy since 1893. The Herschell Committee heard a lot of evidence on the question but came to the conclusion that the view that low exchange was good for exports was based on some trains of *à priori* reasonings, and was not borne out by the examination of the statistics of the years during which the exchange had been falling. The Fowler Committee also devoted a great deal of attention to the consideration of the question and though it had nothing to say about it in its Report, it definitely recorded its opinion that it was not by such an expedient as the writing down of the rupee in sterling that a permanent stimulus could be given to production. The Chamberlain Commission was more concerned with showing how the Government of India had muddled through with admirable results than discussing the question of the effect of rate of exchange on our economic life, and, therefore, maintained silence on this question. The Babington-Smith Committee was confronted with the issue again, and one of the reasons why it recommended 2*s.* rate in gold was its belief that the volume of Indian exports would not fall off on account of insistent demand of the world for the supply of raw materials and foodstuffs and the high level of prices in most of the countries with which India had trade relations. It was of opinion that in discussing the question of the future of Indian trade exchange was only one and not necessarily the most important factor of which account had to be taken. The events, which followed the attempt to give effect to its recommendations, showed how mistaken it was in its anticipation, but they showed more conclusively the effect of the trade on exchange rather than that of exchange on trade. In spite of the weighty character of opinion against the view that any country can derive any permanent gain from the depreciation of its currency, it is still held that the adoption of any rate of exchange higher than 1*s.* 4*d.* will be a tax on the Indian and a bounty to the foreign producers. The reason which accounts for the vitality of this discredited opinion is very simple. The changes in the rate of exchange affect different classes differently. Some gain while others lose, and those that suffer can, by a process of reasoning which self-interest easily stimulates, readily postulate the identity of their sectional and the national interests, and raise the alarm that exchange is ruining trade and industry. It is not its partial truth which has given to it such a long lease of life, but the possibility of its being pressed into service by those who find or fancy that exchange is going against them. In 1893 it was the tea and cotton industries which were against any action being taken for arresting the further decline of the rate of exchange, and considered that their industries would be crippled, if not killed, by the rise in exchange. In 1898 again the proposals were put forward by the interests concerned to throw the mints open again to the free coinage of silver, who advocated this policy in the interests of the nation as a whole. Now it is once more the cotton industry which is threatened with extinction unless the 1*s.* 4*d.* rate is restored to its pre-war position, and attributes its present condition to the exchange policy of the Government of India. The rise of the rate of exchange from 1*s.* 4*d.* to 1*s.* 6*d.* is considered almost a national calamity, and the small cultivators, poor debtors and voiceless millions have had their cause valiantly espoused by those who are interested in the further expansion of our currency. It is natural for the interests concerned to convince themselves that their gain is also the gain of the nation, but it would be a misfortune if their claim to represent the interest of the latter is not taken for what it is worth. The wails of the cotton industry call for sympathy and even a great deal of charity, but should not be allowed to influence our judgment in the slightest degree regarding the right exchange policy of the future. The advocates of the low exchange are virtually putting in a demand for inflation in a disguised form, and though India is not the only country where the doctrine of the issue of more currency as the specific for numerous economic ills has been preached, we know that the countries, which have followed the line of least resistance and accepted it as their working faith, have not thereby made the task of their economic recovery easier on that account. That, in the trade of the country, exchange is only one and not the

most important factor is a fact which can be better illustrated by a brief examination of the trade statistics in India since 1873—the year since which the exchange began to loom so large in our currency discussions. The trade figures till 1893 need not be analysed as the Herschell Commission has in paragraph 27 of its Report dealt with them in detail and shown how inconsiderable was the effect of the falling exchange both on imports and exports. Since 1893 the exchange history of India falls into four well-marked periods. The exchange fell from 1893 to 1896. It began to rise in that year till it stood at about 1*s*. 4*d*. in 1898, and remained stationary till 1917. From 1917 to September, 1920, the rate rose once more on account of the unexpected rise in the value of silver and the ill-conceived exchange policy of the Government of India and has since then been fluctuating on account of the changes in the trade demands; but during the last two years the rate has, as it is well known, been moving upwards. The rupee has risen during the last 22 months in sterling, and risen still higher in gold on account of the attainment of parity of sterling with gold. The gold value of the rupee has during this period risen by more than 20 per cent.—a change which should have paralysed export trade and inundated the country with imports if exchange has all the potency which is attributed to it in popular discussions. The table giving the Index Numbers of exports and imports, since 1873 with the average of 1865-6 to 1874-5 as base, the actual rates of exchange and what is now called the parity rates with its attached graph, forms the annexure to this Memorandum. From 1893 to 1896 during the fall of the actual rate by 5 per cent. and the parity rate by 14 per cent. exports increased by 8 per cent. while imports increased by 5 per cent. From 1879 to 1917 the actual rate was fairly steady and parity rate rose by 66·4 per cent. but the exports rose by 136 per cent. and imports by 98 per cent. From 1917 to 1920 the actual rate increased by 26 per cent., and the parity rate remained constant, and the exports and imports increased by 34 and 47 per cent. respectively. During the period from 1921 to 1925 the actual rate rose by about 20 per cent., parity rate fell by 7 per cent., exports increased by about 43 per cent. and imports decreased by about 17·5 per cent. During the year 1924-5, in spite of an appreciable rise in the actual rate of exchange the exports increased from 348 to 384 crores, and established a new record, while the imports increased only form 217 to 243 crores. Almost all the principal articles of exports, raw cotton, jute, raw and manufactured, rice, wheat, oil seeds and tea showed considerable increase. The only exception was manufactured cotton, the export of which fell from 13 crores in 1922-3 to 11 crores in 1924-5—a decrease of 16 per cent., but when we remember that the export of manufactured cotton is only 3 per cent. of our total exports, we will be disposed to retain a right sense of proportion in our appreciation of the present position These figures have not been quoted with a view to arrive at any positive conclusion, but they point to the comparative unimportance of the rate of exchange in determining the volume and value of our exports and imports. The parity rate is the quotient of the Index Numbers of India and the United Kingdom and is not expected to yield any conclusion, except that even if it is the true normal rate, there is no direct relation between the variations of the rate of exchange and those of the exports and imports. This hoary old fallacy, to use the familiar words, has been revived in India at a time when the latest statistics perhaps affords its most striking refutation. The future of the Indian exchange has already become a controversial issue. The feelings that have been stirred up about it have created confusion in the public mind, but it is important to remember that what is called the popular view of the matter is neither supported by the history of the question nor by the figures of exports or imports. In matters relating to currency and exchange, the fact that a view can be called popular is generally a very good reason for presuming that it is entirely mistaken. The view discussed here raises this presumption against itself.

11. The arguments set forth in the foregoing paragraph only lead to a negative conclusion, and that is that there is no necessity or obligation for adopting the 1*s*. 4*d*. ratio as the basis of our currency system. But they leave the question of the selection of the rate still unsolved. It has already been pointed out that the purchasing-power-parity formula is not quite reliable, and in the selection of the sterling rate of the rupee, the value of silver and the changes in the balance of trade have also to be taken into account. The ideal rate of exchange between the currencies of two countries should be such as, to adopt the word used by Ricardo in his famous theorem regarding the distribution of precious metals, to accommodate itself to the natural traffic which would take place if the currencies were not in use and the trade between the countries was purely a trade of barter. In other words the selected rate of exchange should not have any disturbing effect on the

working of what is called the principle of comparative costs, which governs the currents of international trade. It should not stimulate the export or import of any commodity, which otherwise would not have been exported or imported, or in any way modify the terms at which the exports and imports would exchange with each other. This is the real importance of the purchasing-power-parity theory. It does not give us any formula which can be mechanically applied for the adoption of the exchange ratio. It restates Ricardo's theorem, and emphasizes the necessity of not disturbing the internal economic equilibria of the countries concerned by the adoption of a wrong rate of exchange between their currencies. The selection of this rate must be a difficult task even when things have settled down, but in the present unsettled condition of the world it is impossible not to commit a serious mistake in the selection of the rate. The Finance Member, after having very ably argued against the premature stabilization of the rupee on several occasions, seems to have veered round to the view that now the circumstances are favourable for fixing the exchange value of the rupee. The introduction of the Dawes plan, the restoration of Gold Standard in the United Kingdom and the prospect of Germany's entry into the League of Nations on a footing of equality have improved the situation within certain limits, but it would show an excess of our optimism if we were to assume that normal conditions have, thereby, been already established, or are within sight. The prices are not the only factor to be considered in this connection, though even they have been rising in almost all countries since the beginning of 1924, and the argument of India not being tied down to the chariot wheels of any country still holds good. There are other factors upon which the barometer of business generally depends that must be taken into account, and with regard to which it is idle to contend that a state of normal equilibrium has been established. Things are still in a state of flux. It is difficult to say what the gold value of the rupee should be. Any rate that may be chosen is bound to be arbitrary. There are no criteria which we can go by in our choice. Our last experience is a warning against presuming too much. Since September 1924, the rate of exchange has been about 1*s*. 6*d*., but apart from the fact that it has been maintained at that level by the sterling purchases of the Government, it would be a mistake to fix the gold value of the rupee at a ratio "of the present day" or "in the light of the experience of the last 18 months." Sir James Wilson is of opinion that the present high gold value of the rupee is due to a general fall in the commodity value of gold, and exceptionally good harvests in India; and as he anticipates a rise in the commodity value of gold on account of the increase in the world's demand for it, and almost a certainty of comparatively poorer harvests, he suggests that the gold sovereign be declared legal tender at 14 Rs. or the par rate of exchange should be 17·14*d*. It would be possible to support the proposal for any other lower ratio with similar arguments. It must be admitted that we neither possess knowledge nor experience to choose the suitable rate and since the choice is so very difficult, it is best to desist from making a wrong and possibly a rash one. The best way to realise the real stability for some time to come is, to use Sir Basil Blackett's excellent paradox, not fixity but mobility of exchange. Nothing will be lost by waiting upon events for a few more years. Our exports and imports need not fall off if our harvests are good. The merchants engaged in international trade can always cover themselves by forward dealings, and the Exchange Banks can, by following the policy of "even keel," afford exchange facilities without any limit. The Government of India Budget will remain speculative to a certain extent, but if, otherwise, our finances are well managed, it will not have an unduly disturbing effect on them. The Government of India can reduce their sterling obligations by introducing the system of rupee tender for the purchase of stores, the question of the introduction of which is already under their consideration. The dictum of the Babington-Smith Committee, that stability of exchange is more a facility for international trade than its essential condition is sound and should convince us that since the rate at which the gold value of rupees should be fixed is a matter with regard to which widely different opinions can well be held, there is no immediate necessity of deciding its value permanently. The Brussels Financial Conference in pointing out the limitations of the financial remedies said "Finance is, after all, a reflection of commercial and economic life—a part only, though an essential part of its mechanism." This is also true of exchange which is a part of the financial part of economic life, and since the latter, of which it must be reflection, has still to find its own level, the obvious conclusion is that the rupee is still not ripe for stabilisation, or rather the conditions are not ripe for a stabilized rupee

V.

12. These considerations by natural transition lead to the question of the position of the rupee in our monetary system. There are two aspects of the matter which may be separately considered. What should be the position of the rupee when the stability has been attained? Two or three alternatives suggest themselves Rupees should no longer be the king of the monetary system. It should be dethroned, declared a limited legal tender, should not be convertible into gold, and no more rupees should be put into circulation for a very long time to come. The remedy will be heroic and possibly efficacious, but as far as it is possible to look ahead, it will not be practicable. The other is that the rupee should remain unlimited legal tender, but its further coinage should be absolutely stopped and it should not be convertible into gold. The additional currency should be provided by the issue of standard gold coins and currency notes. This will mean the introduction of what has been called "the limping standard." There is no reason why this alternative should not be adopted. The value of the rupees will be maintained by the limitation of supply, and the automatic expansion of currency will take place. The decisive factor in the adoption of the alternative must be our opinion as to whether no serious inconvenience will arise by withholding the additional supply of rupees when the economic life needs the expansion of currency. As it is merely a matter of opinion, it is not necessary to be positive on this point. But since small payments form the bulk of our economic transactions, we will need small units of value for everyday life, and either one rupee notes will have to be re-introduced, if the objection regarding their being more expensive in the long run can be got over and the people weaned from their attachment to the metallic coin, or additional silver rupees provided for the purpose. If it be found necessary to adopt the latter course, it will practically mean the re-introduction of the pre-war method of issuing rupees in exchange for gold, which really amounts to their unlimited coinage of rupees with varying seigniorage determined by the gold value of silver. That will again give rise to knotty problems. How should profits from coinage be utilised? If the rupee is convertible into gold for internal purposes, gold reserve will have to be maintained. The profits of the coinage will most likely enable us to build up sufficient reserve for the purpose, and the demand for gold for foreign payments can, as suggested below, be met by drawing upon the invested portion of the Paper Currency Reserve, which would mainly consist of readily realisable short-dated foreign securities. The arrangement will work, but in order to insure its smoothness it will be desirable to devise measures for making the rupee a comparatively less important constituent of our currency system. It is not possible or necessary to suggest any, as the question is not of immediate importance.

13. It is of greater interest to consider the position of the rupee in the immediate future. Its gold value should not be fixed, but even then the question as to whether more rupees should be coined or issued will have to be answered. A complete cessation of coinage will mean that the only method provided for permanent expansion of currency will be to increase the invested portion of the Paper Currency Reserve, the amount of which will necessarily depend upon the discretion of the Government. To this course there are two objections. There must be a limit to the increase of fiduciary issue, and as the amount of additional currency will depend upon the discretion of the Government, it will be in its power to affect the course of exchange by increasing or withholding the issue of currency as it may think fit. The exercise of this power by the Government will, apart from the question of its liability to serious errors, defeat the object of not taking immediate action for the stabilisation of the rupee. It should, therefore, be possible to increase the currency permanently even during the period of transition. This object can be realised by adopting the scheme which the Government of India formulated in 1878 for transferring the Indian currency system from a silver to a gold basis, in a modified form as a tentative measure. They, in paras. 48 to 51 of their despatch No. 423, dated the 9th November, 1878, suggested that the Gold Standard be adopted in India and the gold value of rupee be fixed at 2*s*., but as they expected that the exchange would not settle itself sufficiently to enable them to fix the rupee value in relation to the pound sterling permanently at 2*s*., they wanted to take power to receive gold coin at rates to be fixed from time to time, and charge a varying rate of seigniorage on the coining of silver, so as to make the cost of a rupee to a person importing bullion equal in amount to the value given to the rupee in comparison with the gold coin. The proposal amounted to charging a seigniorage varying inversely as the gold price of silver and directly as the current rate of exchange. The proposal was turned down by the Committee

appointed jointly by the Secretary of State and the Chancellor of the Exchequer. From the evidence given by Sir Robert Giffen (who was a member of the Committee) before the Fowler Committee, it appears that the main reason why the proposal was rejected was the apprehension that its acceptance would make the Indian system a "managed" currency. The Herschell Commission also considered the proposal of charging a seigniorage varying inversely as the gold price of silver, and rejected it, as it would have been necessary to provide for frequent alterations of such a varying seigniorage, which would have involved "administrative function of some difficulty." The work of calculating the seigniorage to be charged would be purely of a mechanical nature, and would therefore not entail much "management," though now the word "managed" should not be enough to prejudice us against the acceptance of any proposal. As regards the administrative difficulties, it is sufficient to quote the words of Mr. Leonard Courtney, a member of the Herschell Commission. Referring to the plan for charging a varying seigniorage, he said: "In para. 139 I think that we have overrated the difficulty and delicacy of the administrative function involved in the plan there discussed. I believe that action would be fairly simple, if the plan were practically tackled. The mints in India are not so very numerous as to prevent a daily telegraphic message of the seigniorage to be charged if such frequency should be deemed necessary." The Government of India in 1878 contemplated the adoption of this proposal, as they expected that the period of transition would be short, and the 2*s.* rate soon be reached. It is impossible to foretell the duration of the period during which the plan, if adopted, would remain in operation, or the rate at which the rupee would be eventually stabilised. That the period of transition would not be short is almost certain, and the permanent rate is at present incalculable. But these facts do not affect the soundness of the proposal or its practicability. It would provide for expansion of currency without necessitating any attempt to effect the premature stabilisation of the rupee.

14. There are two ways in which varying seigniorage can, according to this plan, be charged. One is to announce the weight of silver bullion which would have to be brought to the mint to get a rupee in exchange, and the other is to alter the rate at which rupees or notes can be issued against the tender of gold or gold coins. The first alternative throws the liability for the provision of silver on the public, and thereby obviates the necessity of making any special arrangements for the purchase of silver. The second alternative has the advantage of resulting in the automatic accumulation of a reserve which will be utilised later for the convertibility of rupees and notes into gold. It will be, however, advisable to combine both the alternatives in the working of the plan, and let the public utilise one or the other according to its convenience. The accumulation of gold in the Paper Currency Reserve, which cannot be used for the encashment of notes and the evaluation of which will, on account of the variations in gold value of silver and silver rupees, lead to accounting complications, be a disadvantage of the second alternative. But it will not give rise to any serious difficulties, and need not stand in the way of its adoption.

15. As the nominal value of the silver rupee will most likely be generally higher than its intrinsic value, the question of the use to which the accumulated profits of coinage should be put during the period of transition will have to be faced. They should not be used for supporting exchange or converting rupees or notes into gold. They should be used for building up a gold reserve, which would in due course be the basis of the Gold Standard. The reserve may be invested in long-dated securities of the Government of the United Kingdom or the Dominions. But proposals for using it for the capital development of the country should not be countenanced at all. They, besides depleting the reserve, which ought to be kept intact, practically amount to financing industries by inflation. There is a difference between the issue of inconvertible currency notes on which cent. per cent. seigniorage is charged for development of industries and the use of funds raised by the imposition of the seigniorage on the coinage of rupees for the same purpose, but it is only a difference of degree, and does not change the real nature of the transaction. No one has seriously suggested that inconvertible notes should be issued for accelerating the pace of economic progress in the country. But proposals for using the profits of coinage for the purpose have freely been made, and have passed unchallenged. The historical instance of this confusion of ideas is the recommendation of the Mackay Committee that £1,000,000 out of the profits of coinage of 1907 should be used for railway development, and the decision of the Secretary of State in the same year that one-half of

the profits should thereafter be used for capital expenditure on railways until the Gold Standard Reserve reached £20,000,000, and after that total amount had been reached, the whole profits on silver coinage were to be spent for what would have been technically described as the avoidance of debt. This ill-considered decision was given effect to for a year only, but the events of 1907-8 and not the realisation of its essentially mistaken character modified the outlook in this respect. Mr. H. F. Howard made similar proposals in his Memorandum submitted to the Babington Smith Committee. Proposals have lately been put forward by a well-known merchant of Calcutta which will have the same effect. All of them rely on insidious methods of inflation for realising desirable end, and should not, on that account, even be entertained. No nation can ever become properous by the use of such questionable devices.

VI.

16. The importance of having a sound Paper Currency System in India is admitted by all schools of thought. The cheque currency being unsuitable for India, the only method by which we can realise the advantages of economy and elasticity in our Currency System is the extensive use of currency notes. Two or three questions have to be taken up in this connection. The present Act makes provision for a minimum cash reserve of 50 per cent., which, however, can in practice be reduced by the issue of emergency currency in the busy season. But the disadvantage of fixing a proportion of note issue to cash reserve is that in times of panic every drain of one rupee from the reserve would, under certain conditions, involve a forced contraction of Rs. 2 in the currency, and unless issue in excess of legal limit be allowed to stay the panic, the cash reserve will be immobilised, and what is known as the "dead line" reached. It is better to fix the amount of fiduciary issue rather than the proportion of the cash reserve. This amount should be high enough to realise the advantages of note issue, but not so high as to dispense with the necessity of keeping a substantial amount of cash reserve. The temporary provision in the Paper Currency Act that the fiduciary issue should not exceed 100 crores seems preferable from this standpoint. The maximum amount of fiduciary issue must, of course, be changed from time to time, generally in the upward direction. But it should not be raised to provide extra currency for a temporary period. The raising of the limit of 85 crores to 100 crores was a mistake, as the object of the change was only to avoid seasonal stringency in the money market. In fixing the maximum amount, however, provision should be made for special arrangements to meet the emergencies. It should be possible to adopt a plan which can be put into operation without special legislation, though the conditions under which it should be set to work will have to be carefully considered and defined. If, however, the provision regarding the proportion of cash reserve is to be maintained, steps should be taken to extend the limit for the issue of currency notes on the security of bills of exchange, and the Government or the authority in charge of the Paper Currency System be permitted to prevent the reserve requirement from acting as the "dead line" by authorising their suspension for a specified period. The cash reserve should be located in India and the permission to keep gold to the value of 5 crores in London be withdrawn. For the purchase of silver the treasury balances or the sale proceeds of the sterling securities, which should be readily realised, can easily be used.

17. The question of the paper cover of the note issue also needs very careful consideration. As regards a part of the Paper Currency Reserve being invested in the self-liquidating trade bills there can be no difference of opinion. That is the only method by which the note issue can be made elastic in the real sense of the word. The limit of 12 crores will soon have to be exceeded and provision should be made for the purpose. But the investment of the Paper Currency Reserve in securities other than the trade bills is a matter which lends itself to being used as an issue on which the *bona fides* of the Government can be questioned. If, however, the political aspect of the matter is excluded from consideration, the question is comparatively simple. The permanent provisions of the present Act require that the investment in Government of India securities should not exceed 20 crores, and the remaining invested portion of the Paper Currency Reserve is to consist of securities of the United Kingdom, the date of maturity of which should not be more than one year. The restriction regarding the investment in the Government of India securities is sound, for it is obviously undesirable that promises to pay ready cash in exchange for currency notes should, to any large extent, be secured by other promises of the same authority to pay a certain amount of

money after a specified period and interest at stated intervals during the period in question. It is a case of one I. O. U. already issued covering another I. O. U. in the form of currency note. The process of the creation of securities for the issue of notes can be rendered easier in this way. But the restriction of 20 crores should not be rigid and it should be possible for the Government of India to pay off their outstanding loans by increasing their investment in these securities within certain well-defined limits, for the purchase of rupee securities by the use of Paper Currency Reserve practically amounts to the redemption of public debt. There are no other Indian securities which can be used as a suitable cover for the issue of notes. Proposals have been made that the Government of India may issue securities directly to the Paper Currency Reserve against which they will hold assets in the nature of productive works constructed out of the proceeds. Mr. H. F. Howard made a proposal to that effect before the Babington Smith Committee for, according to the view put forward by him, there could be no objection to the Government of India utilising the funds in the Paper Currency Reserve for increasing their assets and thereby improving their position and credit, provided the rupee portion of the investments in the Paper Currency Reserve were strictly limited to the amount which it would never be necessary to realise. *Primâ facie* there can be no objection to investing a part of the currency reserve in financing productive public works and converting cash in the reserve into assets in the shape of capital development of India, provided the condition regarding an absolutely safe minimum not being extended is strictly observed, and in a particular year there is no sudden influx of currency in circulation. But the inherent danger of adopting such a course has to be realised. India's need for capital is so urgent that if the investment of Paper Currency Reserve is considered as a recognised method of finding funds for capital development, the temptation of extending the use of such investments will be so great as to make it necessary for us to provide very effective safeguards against excessive issue. Whether such safeguards can or cannot be provided is a matter with regard to which it is possible to take different views, but the fact that investments of this kind are risky suggests the need of making use of them very sparingly. The bulk of the invested portion of Paper Currency Reserve should be held in a readily realisable form. As regards this portion of the investment realisability is essential. If this condition is to be fulfilled, it is not possible to suggest any other method which will do as well as the investment in the short-dated securities of Great Britain and now possibly of New York. But this brings us against a mass of prejudices which have gathered round the question. The investment of a large portion of Paper Currency Reserve in foreign securities—and that of Great Britain—when India needs all the funds that she can get has all the appearance of being an act of robbing a poor nation for the benefit of a rich one. The political status of India makes it easy to understand why this prejudice should exist, and the foolish utterances of a number of otherwise estimable men connected with the London Money Market do a great deal to strengthen it. But in spite of these difficulties, the fact remains that the foreign securities which mature in a year provide us the best means for the temporary investment of Paper Currency Reserve. Besides the Treasury Bills, we may also make use of the first class bills of exchange for the same purpose. Prejudices do not die soon, but the prejudice referred to here may be decreased if the proposal made below for practically withdrawing all control of currency questions from the Secretary of State in Council is accepted and realised.

18. The investment of a large portion of the Paper Currency Reserve in foreign securities has another advantage. The foreign securities reserve can be used for liquidating an adverse balance of international accounts when India is in a position to establish the Gold Standard. Gold reserve in India should ordinarily be used for converting rupees and notes into standard money, and payments abroad, when it is necessary to make them, should be made by selling these securities by the authority in charge of the working of the Paper Currency System. These securities can be used for the same purpose even if the Exchange Standard is working. A reserve of £50 millions is generally considered adequate for the support of exchange. The portion of the Paper Currency Reserve invested in foreign securities will always be in excess of this amount. The use of this portion for foreign payments will either result in the reduction of the circulation of notes in India or the strengthening of the cash reserve. In the first case the liabilities on account of note issue will be decreased and in the other the cash assets will be increased. In either case convertibility of notes will be rendered more secure. This step can be taken up at once. An analysis of Gold Standard Reserve, as it was constituted on the 31st March 1925, shows that one-fourth of it was invested

in the Treasury Bills and the rest, with the exception of a small amount, which was kept in cash or invested in National War Loan 1929-47 stock, consisted of securities which at the outside will remain outstanding till 1933. On the same date we had about £20 millions of Treasury Bills in the Paper Currency Reserve and but for the fact that there are still about 47 crores of created securities in the Currency Reserve, the value of foreign securities in the reserve, according to the permanent provisions of the Currency Act, would have amounted to about 45 crores The foreign securities in the Paper Currency Reserve can be made to perform exactly the same function as the securities in the Gold Standard Reserve, and will do it better on account of their early maturity. There is no sense in keeping two reserves with different names when they are almost alike in their contents, and can be put to the same use without producing any undesirable results. If the long-dated securities in the Gold Standard Reserve are converted into short-dated securities, it can, with very great advantage, be abolished and merged into the Paper Currency Reserve. This will make it possible to cancel the *ad hoc* securities in Paper Currency Reserve at once, and the way will be clear for bringing into operation the permanent provisions of the present Act, or as it may be amended on the recommendations of the Currency Commission. It will not be necessary to use foreign securities for international payment for the years during which the ratio between rupees and gold remains indeterminate, and rupees and notes are not convertible into gold. With the establishment of normal conditions foreign securities can be relied upon for facilitating the smooth working of the Gold Standard. This advantage will, however, be merely incidental to the essential purpose of investment in foreign securities, viz., realisability. It will, in spite of its subsidiary character, be a great advantage and has also the additional merit of making it possible for us to abolish the Gold Standard Reserve and get rid of created securities in the Paper Currency Reserve, which extinction will be welcomed by everyone concerned.

19. The management of the Paper Currency Reserve system by the Controller of Currency on behalf of the Finance Department of the Government of India is another matter which calls for consideration. The right method of working a paper currency system is that its fundamental principles should be laid down by the Legislature after due consideration of the issues involved, the Finance Department should ensure the observance of these principles and exercise general supervision, and the actual work of day to day management should be entrusted to an authority, which has the opportunity of acquiring first-hand knowledge of the different currents and under-currents of economic life. If the temporary investments of the Paper Currency Reserve in Indian bills of exchange and foreign securities are to be made use of to a larger extent in the future, it will be necessary that the management of the Paper Currency System should be conducted on the basis of knowledge, which only direct contact with facts of economic life can give. The authority which seems to be competent to undertake the work is the Central Board of the Imperial Bank. If it is required to manage the Paper Currency System, it should, for the time being, keep its banking department separate from the issue department, and maintain separate reserves for its banking and currency liabilities, though it should be allowed to transfer funds from one reserve to another at different places, provided the integrity of the currency reserve as a whole is not thereby affected. This facility will be utilised for the movement of funds in the same way as the transfers from Currency to Treasury and *vice versa* are being used at present for reducing the remittance of cash from one place to another to the minimum. The expenditure to be incurred on the management of the system should, as now, be met out of the receipts of the Currency Department, a fraction of the profits paid to the Imperial Bank, and the balance credited to public revenues. This appears to be the natural course under the present circumstances, and the conditions suggested above will probably meet the requirements of the case. But there is one difficulty in adopting it, the magnitude of which is likely to be differently estimated by different individuals. The Imperial Bank will, in a few months, be completing the fifth year of its existence. During this period it has made satisfactory progress. It has fulfilled the condition regarding the opening of 100 new branches. Its London branch has been doing useful work and the scope of its activities can very well be extended. It has provided facilities for the transfer of money between its branches, which have been fully utilised by the public. Its deposits have increased during this period. The only feature of its work which is not quite satisfactory is the low proportion of cash to its liability, which, however, can be strengthened. The Imperial Bank has, therefore, done well and deserves well. But in spite of its good work, it has for reasons, perhaps not of its own making, not been able to

inspire confidence in its impartiality or sense of detachment from lower elements of economic life, which seems to be so essential for an institution which is, or aspires to become, the keeper of the currency conscience of the community. The charges of racial discrimination in its dealings have often been levelled against it and though it is not possible to investigate them or establish their correctness or the reverse, it is clear that the operations of the Bank have not been considered above criticism. Under these circumstances two courses are open to us. Either the Imperial Bank should be reconstituted and practically converted into a State Bank; or the currency work of the country should be assigned to an authority which may be considered as much above suspicion as any authority working in close association with the alien Government can be considered under the present circumstances. The latter course is the easier of the two and will be more effective. An institution whose good faith is being constantly questioned cannot be expected to perform well the delicate function of the management of the Paper Currency System.

VII.

20. The problems of currency and banking are inter-related, and the solution of one has its reactions on the other. But in India their connection, if note issue is not made a function of the banks, will not be as close as in other countries. They are essentially dealers in capital, and do not perform any important currency function. Their deposits are, though reliable information is not available on this point, "cash" deposits, and are not, as in countries like England and the United States of America, created by loans. They do not, to use a very expressive phrase of an American professor, coin goods into money—or, in other words, convert specialised purchasing power into general purchasing power. The importance of the development of the Indian Banking System cannot, from the standpoint of the development of our capital resources, be exaggerated. It is necessary, as has been recommended by the External Capital Committee, to undertake at once a comprehensive survey of the whole field, which should be followed by a detailed inquiry by one or more committees. But it is not necessary to devote much attention to it in the examination of our currency problem, though it is not possible to overlook it altogether. The main currency function which the banks can perform in India is to increase the mobility of money, and thereby make it do much greater work than it does at present. Collection into the banking reserves of innumerable stores of money lying idle throughout the country and centralising them as far as possible has considerable importance from the currency point of view. It will make money a much more efficient instrument of exchange, and thereby realise the principal advantage of the use of paper currency, viz., economy. The main defect of our banking system, looking merely at the currency aspect of the question, is the lack of cohesion. It is a very loose and ill-co-ordinated system—so very loose indeed that it is hardly possible to call it a system. Without undue centralisation, it is necessary to make it much more compact than it is, and give to it an organic unity of its own. For this purpose the first requisite is greater differentiation. There should be different banking organs for different functions. The long-term and short-term credit requirements should be separately provided for, and there should be different institutions for the needs of agriculture, commerce, and industry. Institutions of the same kind functioning in different areas should be federated together, and different institutions should all be affiliated to a central institution, which should become the custodian of the capital resources of the country, and mobilise them to the highest degree. That will give us integration of the specialised institutions, which is equally essential for the introduction of a fully-developed banking system in the country. The elaboration of these general principles in actual practice will require collection of accurate and up-to-date information, its detailed analysis for appreciating the present situation, and adoption of a well-thought-out scheme of future reconstruction and development. This will take time. In the meanwhile the currency system can be taken in hand and placed on a satisfactory basis. The introduction of a currency system, which, as Sir D. M. Dalal pointed out in para. 78 of his minute of dissent written by him as a member of the Currency Committee of 1919, inspires the public with absolute confidence, will lead to a great extension of modern banking in India. The immediate necessity is the solution of our currency difficulties.

21. The other ancillary problem which cannot be left unnoticed here is the question of remittance of funds for meeting the sterling obligations of the Secretary of State. The first consideration which can be urged in this connection is

that they should be reduced. The advice to this effect has been consistently given ever since the fall in the price of silver threw a new burden on the Indian Exchequer, and has been, as consistently, ignored. The result is that India's sterling payments on account of expenditure charged to revenue amounted to 47 crores in 1923-4, as against about 30 crores in 1913-4, and besides this amount more than 10 crores were spent in England on capital account in the same year. It is time that the question of the reduction of our sterling obligation should be seriously taken in hand. All stores, whether purchased in England or in India, should be indented through the new Stores Purchase Department in India, and the rupee tender system be introduced without further delay. The outstanding questions regarding the apportionment of charges, which are a subject of dispute, must be settled at once, items like capitation charges reduced in order to redress the wrongs of years, and every other avenue of minimising such payments fully explored. The extinction of these obligations is a political question, and cannot be brought about merely with a view to easing the currency situation; but the currency aspect of the matter is also an argument in favour of the plea for reducing them as fast and as soon as possible. For many years to come, however, the need of placing the Secretary of State in funds to meet his obligations will remain. The practice of drawing funds from India to meet the home charges by means of bills of exchange drawn on India is a legacy of the East India Company. From being " a simple and effective means of laying down in London the funds required by the Secretary of State " it became " the key to the whole system " of currency and exchange in India. The machinery, of which it was the central feature, has broken down, and if it is not to be set up again it is necessary to reconsider its future, and revise it in the light of the considerations which have now to be taken into account. The two alternatives of effecting remittances, *i.e.*, by selling draft on India in London or by buying sterling bills in India—are, in appearance, different, but, in reality, identical. It is suggested that the purchase of sterling bills should in future be the normal method of remitting funds to London, and the sale of rupee bills resorted to under exceptional circumstances. For the adoption of this course two reasons can be given. In the first place, the Government of India should, in respect of remittances, be emancipated from the control of the Secretary of State. The latter should, while sending his estimates to India, state the amount that he is likely to require the next year, and leave the question of remittances entirely to the unfettered discretion of the Government of India. The Controller of Currency, who is in charge of the ways and means programme in India and England, will, from time to time, have to decide the amount that should be transferred from India to England. He will, of course, in these matters, as he does in all others, act under the orders of the Finance Member, and both of them will, in choosing the time and amount of the purchase, be guided by the need of keeping the Secretary of State supplied with adequate funds and the condition of the Money Market in India, for the interpretation of which they will, necessarily, rely on the advice of the experts. The remittance of funds has an important effect on the working of the Indian Currency System, the Money Market in India, and the rate of exchange; and it is highly desirable that in all matters affecting these important interests the centre of gravity should be shifted from London to Delhi. It is not necessary to add that in making these sterling purchases, the authorities in India should not seek to modify the rate of exchange, or otherwise produce an impression of their own choice on the Money Market. Their main object should be to place funds in London as economically as possible, and in realising it they should follow the lead of the market, and not set the pace themselves. This course is also preferable for another reason. Even from the point of view of trade, it is more convenient that the Exchange Banks should be able to sell sterling bills in India than rediscount the sterling bills, which they buy in India in the London Money Market, and with the proceeds buy Council Bills or Transfers from the Secretary of State. The latter course, obviously, sets in motion a very complicated train of events, which can be easily avoided by the Government of India purchasing the sterling bills for moving their funds from India to England. This method of making remittances is simpler, and has the advantage of giving the Government of India the opportunity of taking initiative in the execution of their ways and means estimates. The traditional practice of selling council drafts for meeting the home charges should, therefore, be abandoned, and in its place the method, which is commendable on account of simplicity and suitability to the local conditions, substituted.

VIII.

22. The conclusions of the Memorandum may, for the sake of convenience, be briefly summarised. India should endeavour to have Gold Standard, and she is in a position to establish it at once, but for the fact that it is exceedingly different to fix the gold value of the rupee. A number of conflicting considerations have to be taken into account in coming to a decision, and the economic conditions of the world are not stable enough to make it possible for a suitable rate to be selected. It is, therefore, best to leave the exchange to itself, and in the meanwhile making provision for the expansion of currency by charging a seigniorage varying directly as the rate of exchange and inversely as the gold value of silver. The Paper Currency System should be managed to realise the advantage of economy and elasticity. The maximum of fiduciary issue should be fixed, but changed from time to time as the circumstances of the case may require. The investments in the Paper Currency Reserve should partly consist of the securities of the Government of India, but the bulk of them should be temporary and take the form of the purchase of the bills of exchange and short-dated foreign securities. The total amount to be invested in this form should be determined from time to time provided the prescribed maximum is not exceeded. It is not necessary to maintain a separate Gold Standard Reserve. It should be merged in the Paper Currency Reserve without any delay. A well-co-ordinated Banking System can, by increasing the turn-over of money, realise the advantage of economy and should be developed. The normal methods of making remittances to England should be the purchase of sterling bills in India.

23. In conclusion it is necessary to emphasise a very important consideration. It is admitted that there is a deep-rooted and widespread suspicion that the policy of the Government of India in regard to Currency and Exchange is dictated by consideration of interests other than those of India. The Finance Member considers that this suspicion is unfounded, and tells us that he ardently wishes for knowledge which may help him to combat it. It is easy for him to trace this suspicion to its source, and take steps to remove this " bar to effective co-operation." Sir Stanley Reed in his evidence before the Babington-Smith Committee referred to " the mountain of misunderstanding " which had been reared up by the secrecy with which the Secretary of State controlled the Indian currency policy, and put in a vigorous plea for publicity in all matters relating to Currency and Exchange in order that " the truth which was interned in the archives of India Office " might have the chance to prevail. He suggested that the Secretary of State should, as far as possible, divest himself from the management of Indian Currency and Exchange. This is the only way in which this cloud of suspicion can be dispersed. The Finance Member may contend that in matters of currency policy there can be no conflict of interests though there may be difference of opinion, but it is not possible for him to convince the public that exercise of such complete powers by an authority so far removed from India and, to quote from Sir Stanley's evidence once more, " surrounded by, and naturally amenable to, interests which are not Indian in their ideas and aims " cannot be perverted to serve the interests of those who unlike the Finance Member himself, do not always " put the interests of India first, second, and last." The Finance Committee, on whose advice the Secretary of State naturally relies in currency matters, contains members who are connected with large banks in the city of London. It is considered undesirable that men connected with the Big Five should have anything to do with the management of the Bank of England, in spite of the fact that even in that case there is room for difference of opinion though none for any difference of motives. This has given rise, in the words of Hartley Whithers, " to one of those anomalous absurdities so common in England," which disqualifies for membership of the Bank Court anyone with an expert knowledge of banking. The Finance Committee has practically a decisive voice in the questions connected with the transfer of funds, allotment of Council Bills, investment of reserves, and treasury balances, and the pursuance or suspension of a particular policy with regard to the rate of exchange—matters in which the banks are vitally interested; and it is really too much to expect that they, in giving their advice to the Secretary of State, will always keep the best interests of India in view. They would be more than human if they, in giving their opinion on issues, which involve the questions of location and use of millions, do not often succeed in convincing themselves that their interests are identical with the interests of India. Even if they can take their stand on an elevated level, and subordinate their interests to that of India, it is almost impossible to make the Indian public believe that they have performed this remarkable feat.

The remedy of the evil is not the abolition or reconstitution of the Finance Committee, but abdication of all powers over matters connected with the Indian Currency and Exchange by the Secretary of State. This should not be made a constitutional issue. It may not be possible to put statutory limit on the powers of the Secretary of State in this respect, but India should by convention, if not by law, be guaranteed that in these matters the Secretary of State will pursue a policy of non-intervention as far as possible. The belief that India's currency policy is dictated from Whitehall in the interests of the London Money Market will do more to endanger the good relations of India and Great Britain than the similar belief with regard to India's fiscal policy has done or can do. It makes it impossible to secure a dispassionate consideration of the complex currency problems or have the necessary atmosphere for the successful working of a currency policy, even though it may be formulated in the highest interest of India. It is, therefore, a matter of primary importance that the Secretary of State should virtually let the Government of India and the Indian Legislature determine the principles on which the Indian Currency System should be based, and authorise the constitution of a body fully equipped for its duties, to which should be assigned the work of the day-to-day management of the Currency System.

24. This body may, in the absence of a better title, be called the National Currency Board. It is not possible here to work out in detail the constitution or the functions of this authority. It will consist of members nominated by the Government, and their number may vary from seven to nine. The Government should be represented by two members, one of whom will, of course, be the Controller of Currency, and the other may be the Finance Secretary. The non-official members should represent banking, business, and general interests. Indians should have a distinct majority in the composition of this body, though any political pressure to pack it with men belonging to a particular party or holding certain views should be strongly resisted. The Board should have a non-official and preferably an Indian Chairman, and its own office and Secretariat. A permanent administrative officer of the rank of Deputy Controller of Currency should be the Secretary to the Board. It should practically be in charge of the working of the whole currency system, though the ultimate responsibility for its soundness and efficiency must rest on the Government of India. It should declare the seigniorage to be charged for the fresh issue of currency, manage the Paper Currency System—take custody of the securities, decide questions of temporary investments within the provision of the law, and see to the proper distribution of the cash reserve—advise the Government of India in effecting its home remittances, and work the arrangements for the purchase of silver for coinage. All purchases of silver for the Government of India should, in future, be by open tender to be delivered in Bombay. The Board should, if the members nominated to it are men whose reputation and knowledge inspire confidence, be able to dispel most of the prejudices that have accumulated round the Indian Currency System, and prepare the way for introducing such changes as experience and knowledge of its working may suggest or make inevitable. It is absolutely necessary that the existing difficulties "of arriving at and carrying through the policy most truly beneficial to India" be removed by an arrangement which will disarm all suspicion, and be considered satisfactory by those who are in a position to form an intelligent judgment on questions of Currency and Exchange. As things are, it is impossible to promote clear thinking on these matters, or carry conviction merely by the inherent soundness of particular proposals. We badly require an atmosphere free from the mist of doubt and distrust. The National Currency Board should be able to create it.

ANNEXURE TO THE MEMORANDUM.

Table showing the Index Numbers of Exports and Imports, the actual rates of Exchange and Parity rate from 1873 to 1924.

(NOTE.—For exports and imports average of 1865-6 to 1874-5 is the base and parity rates have been calculated by taking the rate of 1873 as the base.)

Year.	Export.	Import.	Rate of Exchange.	Parity rate.
1865–66 to 1874–75 ...	100	100	—	—
1875–76	105·62	118·18	21·04	20·6
1876–77	110·93	113·64	20·499	21·25
1877–78	118·58	125·76	20·81	18·4
1878–79	110·78	114·55	19·93	16·5
1879–80	122·2	124·85	19·895	16·2
1880–81	135·6	160·9	19·96	17·0
1881–82	149·02	148·99	19·888	18·2
1882–83	151·78	157·58	19·572	21·2
1883–84	160·31	167·27	19·53	18·6
1884–85	151·36	168·78	19·347	16·8
1885–86	152·51	168·48	18·318	16·7
1886–87	160·85	187·18	17·46	15·8
1887–88	164·62	196·97	16·93	15·15
1888–89	176·43	210·42	16·389	14·4
1889–90	188·11	209·67	15·562	14·4
1890–91	182·22	218·09	17·999	14·55
1891–92	196·67	210·39	18·833	14·8
1892–93	193·8	200·79	15·026	13·5
1893–94	193·64	233·39	14·556	13·1
1894–95	198·02	222·79	13·100	12·4
1895–96	207·87	221	13·4	12
1896–97	189·05	230·64	14·433	11·2
1897–98	177·51	223·15	15·366	11·0
1898–99	205·07	218·48	15·972	13·4
1899–1900...	198·33	228·18	16·069	14·3
1900–01	195·84	245·12.	15·981	13·0
1901–02	227·07	269·03	15·982	12·8
1902–03	235·25	260·03	16·022	13·1
1903–04	279·11	280·57	16·047	14·0
1904–05	286·76	316·39	16·045	13·1
1905–06	292·42	339·72	16·042	13·35
1906-07	321·85	355·42	16·087	12·05
1907–08	322·69	414·06	16·031	11·75
1908–09	278·44	390·24	15·931	10·7
1909–10	341·75	371·67	16·037	12·0
1910–11	381·75	405·15	16·06	12·85
1911–12	412·69	436·52	16·083	12·5
1912–13	447·65	504·91	16·059	12·5
1913–14	452·75	586·06	16·069	11·95
1914–15	331·22	439·18	16·009	11·7
1915–16	362·84	418·73	16·082	14·3
1916–17	449·64	455·27	16·147	14·8
1917–18	445·27	495	16·496	18·0
1918–19	464·22	571·39	17·497	17·2
1919–20	605	671·89	21·691	15·05
1920–21	486·83	1053·24	20·66	18·0
1921–22	452·09	856·33	15·85	13·25
1922–23	574·67	746·03	15·76	11·2
1923–24	660·67	788·73	16·5	11·8
1924–25	643·58	705·03	16·006	12·35

NOTE.—A graph of these values is also attached.*   * Not printed.

APPENDIX 16.

Letter from the Secretary, The Chamber of Commerce, Bombay, to the Joint Secretaries, Royal Commission on Indian Currency and Finance, No. 2491/213, dated the 24th November, 1925.

My Committee have carefully considered the terms of reference of the Royal Commission on Indian currency, and I am now instructed to place before you the written evidence which they wish to submit.

2. At the outset, I am to say that my Committee are unanimously of opinion that the time is now ripe for an attempt to be made to solve the problems affecting Indian Currency and Exchange; pending the re-establishment of the Gold Standard in the United Kingdom my Committee felt, and repeatedly emphasized, that it was undesirable that any attempt should be made to arrive at a solution of India's particular problems, both because of the uncertainties surrounding world gold values and because of the extent to which the foreign trade of India is financed in sterling. My Committee were of opinion that it would be most undesirable to attempt definitely to link the rupee with gold until such time as the stability of gold values throughout the world appeared reasonably assured, and the United Kingdom was in a position to re-establish a gold standard. While my Committee recognise that the United Kingdom has technically not yet fully restored her gold standard they feel that sufficient progress has been made in this direction to warrant India giving consideration to her own special problems of Exchange and Currency, with a view to effecting stability of the one and instituting a more automatic system of the other.

3. My Committee have considered very fully the problems involved, and I am to lay their views before you under five main headings, *viz.*:—

(*a*) The Standard in relation to which the rupee should be stabilised.

(*b*) The Ratio between the rupee and the standard of value.

(*c*) The Currency Department in India and in London.

(*d*) The Remittance business of the Government of India.

(*e*) The Gold Standard Reserve.

The Standard.

4. Inasmuch as gold is the world's standard of value my Committee are of opinion that stability of the rupee in India must connote stability of purchasing power in terms of gold, and they therefore feel that stability of the rupee can only be assured by basing the rupee on gold. My Committee have discussed the comparative importance of stability in internal prices and foreign exchange, and while they agree that it is desirable that internal prices should be as stable as possible in relation to the currency, it would appear to them to be impossible to ensure complete stability of internal prices, which must be subject to influences which do not affect external prices, and they consider it of prior importance that Indian Exchange should be stabilised in relation to the world's standard of value.

5. Agreeing as they do that gold should be the standard of value on which to base the Indian Currency, my Committee have considered whether it is advisable that India should revert to a gold exchange standard, or whether she should attempt to instal a full gold standard and gold currency, and I am to say that they consider it desirable, with a view to stabilising exchange that India should ultimately have a full gold standard and gold currency.

In arriving at this conclusion, which corresponds with the views they have advocated for a great many years, my Committee have been influenced by several considerations, *viz.*:—

(*a*) The more automatic nature of a full gold currency makes a strong appeal to the commercial community, which would naturally be glad to see any form of management of the country's currency and exchange policy restricted as far as possible.

(*b*) They feel that a gold standard and gold currency, if gold could be made to circulate, would probably have a relatively greater stabilising effect on internal prices than a pure rupee currency working under a gold exchange standard.

(c) They feel that a gold currency, divorced from hoarding influences, would be more easily capable of contraction than a rupee currency, inasmuch as rupees are neither exportable in the same manner as gold, nor meltable without loss, and this capacity for contraction should have the effect in the long run of producing greater stability.

(d) They are of opinion that a gold currency would probably have the effect of imparting confidence in banking amongst the people of India as the result of the knowledge that gold could always be obtained in exchange for a cheque. In this connection my Committee would prefer to see the use of cheques rather than of currency notes encouraged in India, and if their premise is correct it follows that the use of cheques would be promoted, and this would in its turn give greater elasticity to the currency from the point of view of the volume of credit being increased.

(e) My Committee feel that more actual gold would be imported into India under a full gold standard and currency than under a gold exchange standard, and that this would automatically ensure the accretion of greater real wealth in terms of the world's standard of value.

(f) My Committee feel that the rural population prefers gold to silver, and they consider that this, coupled with the strong political demand for gold in India, is a factor which should be taken into consideration.

6. My Committee realise that a gold standard and currency would be more costly to maintain than a gold exchange standard, and that in Europe it is considered uneconomical to dissipate gold reserves in actual currency, but they feel that in this respect India cannot be judged solely by Western standards, and that the mentality of the average Indian must be taken into consideration.

7. My Committee have given consideration to the problem of hoarding in India, and while they agree that a gold currency in its first stages might increase the tendency to hoard, they would point out that the gold exchange standard has not stopped the hoarding of the precious metals in the past, whilst it is more than possible that familiarity with a gold currency and the knowledge that gold could be obtained at will in exchange for a token coin would ultimately promote the confidence necessary to reduce the tendency to hoard.

8. My Committee have further discussed whether there is a real risk with a gold currency in circulation that gold would not be forthcoming for export when required except from the Paper Currency Reserve; for if it could be shown that this would be likely to occur, there would exist, of course, an argument of some weight against a gold currency, for contraction would become difficult to effect; but while an expression of opinion on this point can at best be conjectural my Committee would point out that a falling exchange normally follows crop failures and the swinging of the balance of trade against India, and that under these circumstances it is more than probable that the people would be forced to part with a portion of their gold.

9. If a full gold standard and currency were in operation my Committee are agreed that a necessary concomitant would be legislation providing for the compulsory conversion of rupees into gold or gold into rupees, on demand, but they feel that it would be unsafe for Government to accept the full responsibility of conversion of rupees into gold without in some way limiting the issue of silver rupees or the issue of notes against a backing of silver, for not only would it appear necessary to limit the liability of Government in this connection, but also it is doubtful whether the objective of a real gold currency could ever be achieved as long as there was no limit to the coinage of rupees. The advisability of continuing to purchase unlimited stocks of silver, which can alter in value in terms of gold, and the fact that an unlimited number of token coins in circulation may, by their very number, and the fact that they are unlimited legal tender tend to depreciate the value of the rupee even under a gold standard, are factors which my Committee consider should be seriously considered.

My Committee do not subscribe to the theory that a gold currency cannot exist unless the major portion of the circulating currency consists of gold. They hold that the adoption of the principle of convertibility into gold would in itself ensure the existence of a gold currency. But at the same time they are of opinion that the full advantages of a gold currency cannot be obtained merely by increasing the gold element in the silver currency. The actual circulation of gold, coupled with the acceptance of the principle of convertibility would, they feel, tend to

give greater stability to internal prices, and also to encourage banking, so that any means to secure those ends, such as the limitation of the coinage of rupees, would appear worthy of consideration. They wish it to be understood, however, that they do not advocate the limitation of the issue of rupees solely in order to force gold into circulation, or in such a manner as deliberately to contract the volume of circulating currency. In short, they would be opposed to any attempts being made to force gold into circulation.

They appreciate that the meeting of all demands for gold might eventually entail the melting down of a portion of the silver currency, and they have considered whether Government would ever find themselves, as a result, in such a position as to be unable to meet a sudden demand for rupees, but as the adoption of a full gold standard would of necessity have to take place very gradually they are of opinion that such a position would be unlikely to arise.

10. My Committee are inclined to the view that the sovereign is too large a coin to circulate freely in India, and they would prefer to see a smaller coin minted in India.

11. I am to say, however, that while my Committee are of opinion that India should ultimately have a full gold standard and currency they appreciate that there are many and obvious difficulties in the way of the immediate attainment of that object. They therefore recommend that as soon as possible a transition period should be inaugurated, during which a gold exchange standard should be in operation, and that Government should endeavour during this transition period, by the creation of sufficient gold reserves in India, to place India in a position ultimately to adopt a full gold standard.

12. With regard to the gold exchange standard that should be in operation during the transition period, my Committee are of opinion that to ensure as complete a stability as possible and to render the system as automatic as possible it would be necessary to fix both high and low gold points, and for Government to undertake, by statute, to convert rupees into gold or sterling, at their option, on demand. My Committee are of opinion that it would not be safe for Government to undertake full conversion into gold at this stage.

THE RATIO.

13. In discussing the question of what should be the ratio between the rupee and the standard of value, consideration must be given to the extent to which the rupee can be called a token coin. My Committee are of opinion that the rupee is to all intents and purposes a token coin, which for many years prior to the findings of the Babington Smith Committee represented the fifteenth part of a sovereign. Theoretically the ideal token coin should never vary in its ratio with the standard of value, and its bullion value should be low enough to permit of this stability, but the problem of the exchange value of the rupee is complicated by the fact that for generations before it became a token coin the rupee was a standard of value, and is still looked upon as such in many parts of the country, and, moreover, that it is unlimited legal tender.

My Committee submit not only that the bullion value of the rupee is, because of its universal use, somewhat greater than that of most token coins, but also that the gold value of the silver contents of the rupee, owing to its unlimited issue, is a factor that must influence the ratio between it and the standard of value.

14. The fixing of the ratio at 2*s*., following the recommendations of the Babington Smith Committee, has been proved in the light of subsequent events to have been premature, for this ratio has almost from the beginning been inoperative, and the subsequent rapid fall in exchange to below 1*s*. 4*d*. was only to be expected, but it is interesting to note the manner in which the gold price of silver influenced that Committee in its decisions.

The rise in exchange from the 1*s*. 4*d*. level in 1923 to the 1*s*. 6*d*. level, at which it stands to-day, was clearly due to a series of favourable trade balances, and might have been prevented by the liquidation of those balances with imports of gold,

(*a*) If the ratio between the rupee and gold had been such as to permit of gold being bought and tendered in exchange for rupees.

(*b*) If sufficient gold had been available for this purpose.

(c) If it had been considered prudent to expand the currency to the extent of the imports of gold that would have been necessary.

(d) If it had been considered safe to allow the percentage of the gold value of the silver rupee to increase.

My Committee have held throughout that it was inadvisable to make any fresh change in the ratio until such time as gold prices and values showed real signs of stability, and, because of the extent to which Indian foreign trade is conducted in sterling, until it had been found possible to restore the gold standard in the United Kingdom. Consequently, they have been opposed hitherto to any fresh change being made in the present inoperative ratio of 2*s.* But apart from that they would point out that the free export of gold from the United Kingdom was not permitted until early in 1925, when exchange was already at over 1*s.* 6*d.*, so that it is improbable that sufficient gold would have been forthcoming as long as the control of gold lasted to have enabled the rate of exchange to be kept down at 1*s.* 4*d.*, even had the ratio been altered from 2*s.* to 1*s.* 4*d.* And, as it would appear to have been impossible for Government under its statutory limitations to have sold and coined sufficient rupees against purchases of sterling securities to have ensured the rupee remaining at 1*s.* 4*d.*, it appears to my Committee that the rise to 1*s.* 6*d.* was inevitable. (*See* Appendix A—Average Exchange Rates, and Appendix B—Imports of Gold Coin and Bullion.)

15. The question for consideration now appears to be whether there is any justification for an attempt being made to stabilise exchange at its former ratio of 1*s.* 4*d.*, or whether it is advisable to stabilise it at its present level of 1*s.* 6*d.* or at any other level.

In discussing this matter my Committee have given the fullest consideration to the question whether a change in the ratio of a token coin involves any section of the people of India or any part of India's commercial activities in hardship or loss, and they are agreed that any alteration in the ratio, which has as its effect an increase in the gold value of the rupee, must, to the extent that a complete adjustment of internal prices fails to take place, result in indirect taxation of a large section of the agricultural population, and must also be detrimental to local industries, and inasmuch as my Committee are of opinion that a country's main obligation is to its internal debtors they agree that every effort should be made to stabilise exchange at a figure as near the original ratio of 1*s.* 4*d.* as possible.

But they would point out that a return to 1*s.* 4*d.* would involve:—

(a) A large expansion of the currency.

(b) A rise in the internal price level.

(c) Losses to Government in connection with the payment of home charges, external debt, &c., which might or might not be balanced by increased customs duties and greater prosperity.

These considerations in themselves are sufficiently serious, and in particular my Committee have grave doubts whether in the event of the balance of trade continuing heavily in favour of India and the ratio being brought down to 1*s.* 4*d.* it would be possible to adjust the balance by means of gold imports without expanding the currency to a point that might be dangerous; and my Committee would also point out that when the rupee was fixed at 1*s.* 4*d.*, the gold value of the fine silver contents was 11·333*d.*, *i.e.*, 71 per cent. of the currency value, while to-day the gold value is 12·285*d.*, or about 68 per cent. of the currency value, whereas if the ratio were to be reduced to 1*s.* 4*d.* the percentage would at once be increased to 77 per cent. Therefore, taking into consideration on the one hand the increased cost of production, and the fact that it is improbable either that the price of silver will return to its pre-war low levels or that the gold value of the silver in the rupee will recede from its present level, and on the other hand that it is not impossible that the price of silver may rise and that it would appear impossible, at all events for many years to come, that the rupee will ever be displaced as a form of currency to such an extent that the value of its silver contents will no longer continue to be a factor affecting the ratio between it and the standard of value, my Committee are of opinion that it would be a grave risk to allow its bullion value to approach any nearer to its currency value than it is to-day. In this connection, I am to express the view of my Committee that an alteration in the issue or fineness of the rupee should not be considered as a possible solution of the difficulty I have set out, for any debasement of the rupee would, in the opinion of my Committee, cause the gravest distrust in the whole fabric of the currency.

16. The conclusion my Committee have arrived at therefore is that it is desirable, as soon as possible, to alter the ratio from its present 2*s.* level to that of 1*s.* 6*d.* Unless the 2*s.* ratio is altered it is clear that automatic currency conditions cannot be restored. The level of 1*s.* 6*d.*, on the other hand, would appear to my Committee to be one that will ensure a free flow of gold into India, and they feel reasonably confident, now that the United Kingdom has returned to a gold standard, that the low gold point of 1*s.* 5 13/16*d.* can be safely maintained.

Currency Department.

17. My Committee have discussed whether it is desirable that the control and general management of the Currency Department in India should remain as at present or whether it should be handed over to the Imperial Bank of India. The work and responsibilities involved would appear to embrace :—

(*a*) Issue of notes and their cancellation.

(*b*) Registration of notes of high denomination.

(*c*) Provision and control of metallic and other reserves.

(*d*) Management of currency chests and sub-chests in all large centres and in up-country treasuries and sub-treasuries, including the transfer of funds.

(*e*) The supply of currency of required denominations to the public and to up-country treasuries and sub-treasuries.

(*f*) The provision of sufficient currency of each denomination, metallic and paper, including small coin.

(*g*) The handling of claims on half, mismatched, and imperfect notes.

My Committee are of opinion that the Imperial Bank of India could not undertake this work unless they were permitted to absorb the personnel of the Currency Department, and, moreover, that a transfer of this nature would entail the making of a fresh agreement between the Government of India and the Imperial Bank of India in which the safeguards necessary to ensure the correct functioning of the new department could be provided for.

Provided that the absorption of the Currency Department's staff is possible, and that such a fresh agreement between the Government of India and the Imperial Bank of India were made, my Committee are of opinion that the co-ordination between Banking interests and the Currency Department, and the elimination of dual control that would result from the transfer, both of which would tend to promote greater efficiency and elasticity in the working of the department, would result in advantages sufficiently solid to make the transfer desirable.

18. My Committee are satisfied with the present denomination and currency of the note issue.

19. My Committee would prefer an automatic increase in the volume of currency to any system giving a slow and steady annual addition irrespective of the volume of trade.

Government Remittances.

20. Inasmuch as the Government of India must be responsible ultimately for the support of the gold exchange standard and for all book profits and losses on exchange in connection with Government remittances, my Committee are of opinion that Government remittances should remain under Government control. At the same time, they feel that it would be impossible for the Imperial Bank of India to manage the Currency Department in India with any degree of efficiency or confidence unless it were permitted not only to operate the high and low gold points under the gold exchange standard, but also to exercise a fair measure of discretion in the remittance of Government funds between the gold points. The exercise of these functions by the Imperial Bank of India would tend, in their opinion, to give a very desirable continuity of control and would enable the commercial community to keep in closer touch with the Currency Department My Committee feel that it would not be impossible for the Government of India to maintain the ultimate control which in their oppinion is desirable, and at the same time not to interfere unduly with the Imperial Bank of India in the execution of its duties, and they would like to see the remittance business of the Government of India managed by the Imperial Bank of India under these conditions.

But, whether the Currency Department is handed over to the Imperial Bank of India or whether Government continues to manage it as at present, my Committee are strongly of opinion that Government remittances should be effected by means of public tender, either in London or in India, rather than by private purchases of sterling, as the former method is more equitable, and promotes a greater feeling of confidence in the minds of the public.

Paper Currency Reserve.

21. My Committee are satisfied with the present statutory limits governing the fiduciary portion of the paper currency reserve. While the metallic backing provided would appear to be ample, they would not like to see this percentage reduced.

22. My Committee would like to see the management and investment of the paper currency reserve both in India and in London in the hands of the Imperial Bank of India.

23. Whether there is a full gold standard or a gold exchange standard, my Committee are of opinion that the home payments of the Government of India will continue to make it necessary for a branch of the paper currency reserve to be held in London. This branch should in their opinion be under the control of the Imperial Bank of India.

24. My Committee have considered whether there are any methods, as yet untried in India, of providing for greater elasticity in the currency, and their opinion, expressed very generally, is that the only sound method of providing for such elasticity lies in the application of the American method, *i.e.*, the re-discounting by the Imperial Bank of India of up-country trade bills or hundies already discounted by smaller country banks and the use of these bills or hundies as a backing for the issue of paper currency. This method, however, clearly depends on the growth of banking in India, and my Committee are not prepared to recommend that such trade bills or hundies, when discounted direct by the Imperial Bank of India, should be used in the same manner.

For the present, and as a last resource, if a further expansion of the currency is felt to be an absolute necessity, my Committee think that it might be well to explore the possibility of using demand trade bills or hundies discounted by the Imperial Bank of India as a backing for the issue of paper currency.

Gold Standard Reserve.

25. Since my Committee have already expressed their opinion that the gold exchange standard should remain in existence for several years to come, it follows that they advocate the retention, for the present, of the gold standard reserve. They have considered whether it would be advantageous to keep a whole or a part of this reserve in India, but they are of opinion, in view of the purpose for which this reserve was formed, that the balance of advantage lies in keeping the whole of it in London. They would recommend, however, that it should be kept in the custody of the Imperial Bank of India and that the investment of the fund should be managed by that body.

26. My Committee are agreed, after examination of the trade figures for the periods 1910-13 and 1921-25, and particularly in view of the slump year of 1921 when the nett adverse balance against India amounted to £31½ millions, that the figure of £40 millions would appear to be adequate for the purpose for which the gold standard reserve was formed. They recognise, however, that what may be considered adequate to-day may be inadequate in a few years' time under changed conditions, and they submit therefore that no definite limit should be fixed to the amount to which the reserve should be accumulated.

27. My Committee have already expressed their opinion that the introduction of a full gold standard and currency could only be effected gradually, that the first step towards its accomplishment would have to be the replacement of a part of the present paper currency reserve in India with gold, and that in the transition period Government should undertake, by statute, to convert rupees into gold or sterling.

To convert the gold standard reserve completely into gold under these circumstances would appear to my Committee but an unnecessary tax on India's resources. They recognise, if a gold exchange standard is to be the final object to be achieved, that it would be fundamentally sounder for the reserve to be held

in gold, but they feel, if a full gold standard is to be aimed at, that the necessity for the conversion into gold of part or the whole of the gold standard reserve should be governed to a large extent by the progress made in converting part of the paper currency reserve into gold, for presumably with a full gold standard the necessity for the separate existence of the gold standard reserve would cease.

While, therefore, they would be prepared to see a part of the gold standard reserve gradually converted into gold, they feel that this conversion should be dictated by current circumstances and not laid down as a necessity.

28. As regards the use of this reserve, my Committee are of opinion that it should be used by the Imperial Bank of India, for the support of exchange, in consultation with the Government of India.

Appendix A.

Average Exchange Rates, Banks Selling Telegraphic Transfers Month by Month from April, 1919 to October, 1925.

1919.

Month.	*Average Exchange.* s.	d.
April ...	1	$5\frac{31}{32}$
May ...	1	$6\frac{31}{32}$
June ...	1	$7\frac{31}{32}$
July ...	1	$7\frac{31}{32}$
August	1	$8\frac{31}{32}$
September	1	$11\frac{19}{64}$
October	2	$0\frac{1}{32}$
November	2	$1\frac{3}{4}$
December	2	$3\frac{5}{8}$

1920.

Month.	s.	d.
January	2	$4\frac{1}{2}$
February	2	$8\frac{3}{4}$
March	2	$5\frac{3}{16}$
April ...	2	4
May ...	2	$2\frac{15}{16}$
June ...	1	$11\frac{1}{4}$
July ...	1	$10\frac{1}{16}$
August	1	$10\frac{7}{16}$
September	1	$10\frac{1}{8}$
October	1	$7\frac{7}{8}$
November	1	$7\frac{5}{16}$
December	1	$5\frac{9}{16}$

1921.

Month.	s.	d.
January	1	$5\frac{5}{16}$
February	1	$3\frac{29}{32}$
March	1	$3\frac{5}{16}$
April ...	1	$3\frac{5}{8}$
May ...	1	$3\frac{5}{16}$
June ...	1	$3\frac{27}{64}$
July ...	1	$3\frac{1}{4}$
August	1	$4\frac{3}{16}$
September	1	$5\frac{17}{64}$
October	1	$4\frac{51}{64}$
November	1	$4\frac{1}{8}$
December	1	$4\frac{1}{64}$

1922.

Month.	s.	d.
January	1	$3\frac{53}{64}$
February	1	$3\frac{29}{64}$
March	1	$3\frac{9}{32}$
April ...	1	$3\frac{5}{32}$
May ...	1	$3\frac{35}{64}$
June ...	1	$3\frac{35}{64}$
July ...	1	$3\frac{21}{32}$

1922—*cont.*

Month.	*Average Exchange.* s.	d.
August	1	$3\frac{37}{64}$
September	1	$3\frac{9}{16}$
October	1	$3\frac{5}{8}$
November	1	$3\frac{13}{16}$
December	1	$3\frac{63}{64}$

1923.

Month.	s.	d.
January	1	$4\frac{37}{64}$
February	1	$4\frac{7}{32}$
March	1	$4\frac{7}{64}$
April ...	1	$4\frac{1}{8}$
May ...	1	$4\frac{3}{32}$
June ...	1	$4\frac{3}{32}$
July ...	1	$4\frac{5}{64}$
August	1	$3\frac{63}{64}$
September	1	$4\frac{1}{8}$
October	1	$4\frac{31}{64}$
November	1	$4\frac{59}{64}$
December	1	$5\frac{5}{64}$

1924.

Month.	s.	d.
January	1	$5\frac{7}{64}$
February	1	$4\frac{53}{64}$
March	1	$4\frac{11}{16}$
April ...	1	$4\frac{51}{64}$
May ...	1	$4\frac{31}{64}$
June ...	1	$4\frac{59}{64}$
July ...	1	$5\frac{7}{32}$
August	1	$5\frac{1}{4}$
September	1	$5\frac{31}{64}$
October	1	6
November	1	$5\frac{27}{32}$
December	1	$6\frac{3}{64}$

1925.

Month.	s.	d.
January	1	$5\frac{31}{32}$
February	1	$5\frac{31}{32}$
March	1	$5\frac{29}{32}$
April ...	1	$5\frac{27}{32}$
May ...	1	$5\frac{15}{16}$
June ...	1	6
July ...	1	$6\frac{5}{64}$
August	1	$6\frac{3}{32}$
September	1	$6\frac{9}{64}$
October	1	$6\frac{5}{32}$

APPENDIX B.

Imports of Gold Bullion and Coin into British India from 1st January, 1924 to 30th September, 1925.

Months.	1924.				1925.			
	Value.				Value.			
	Gold Bullion.	Gold Sovereigns.	Gold other coins.	Total Value.	Gold Bullion.	Gold Sovereigns.	Gold other coins.	Total Value.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
January	1,85,60,778	23,06,247	21,13,308	2,29,80,333	5,35,76,245	2,17,72,621	1,76,226	7,55,25,092
February	49,26,013	44,82,536	19,08,864	1,17,13,413	8,18,03,030	1,24,52,618	3,81,827	9,46,37,475
March	2,21,71,315	51,48,145	25,41,755	2,98,61,215	12,34,04,939	2,58,13,977	8,86,839	15,01,05,755
April	2,69,37,615	24,61,850	7,72,679	3,01,72,144	1,22,24,322	12,06,715	2,77,089	1,37,08,126
May	2,20,23,873	73,34,050	1,04,435	2,94,62,358	2,61,75,202	43,13,114	12,19,619	3,17,07,935
June	2,12,11,036	65,75,438	4,00,090	2,81,86,564	1,12,13,399	1,21,78,781	2,98,426	2,36,90,606
July	1,00,50,070	74,24,139	26,998	1,75,01,207	1,21,20,988	1,39,01,017	13,464	2,60,35,469
August	3,11,23,551	97,62,800	1,48,090	4,10,34,441	2,27,44,254	38,91,974	8,35,878	2,74,72,106
September	5,66,18,462	66,34,578	23,876	6,32,76,916	2,52,76,766	1,22,26,180	16,25,527	3,91,28,473
October	4,98,12,262	1,48,78,074	47,942	6,47,38,278	Not yet available.			
November	5,43,16,392	1,29,67,287	1,38,554	6,74,22,233				
December	3,12,88,195	1,61,33,116	15,100	4,74,36,411				
Total	34,90,39,562	9,61,08,260	82,41,691	45,33,89,513	36,85,39,145	10,77,56,997	57,14,895	48,20,11,037

APPENDIX 17.

Statement of evidence submitted by Mr. B. F. Madon, of Bombay.

The terms of reference to the Commission are (1) to examine and report on the Indian Exchange and Currency System and practice, (2) to consider whether any modifications are desirable in the interests of India, and (3) to make recommendations.

THE SYSTEM.

We shall first see what the system was. As a matter of fact, there was no well-thought-out system. Steps were taken from time to time that tended to the establishment of the Gold Standard in India, but they were disconnected, and the bearing of any particular step on the whole was not very clearly appreciated by those responsible for it, but, by 1913, we had muddled through somehow to a system which the Royal Commission on Indian Finance and Currency of 1913 described as a Gold Standard. This Commission carefully examined the system and practice then in vogue, and their findings provide a most valuable indication of what the system was. They found that

1. The History of the previous 15 years (i.e., 1898-1913) showed that the Gold Standard had been firmly secured in India (paragraph 223, IV).

2. The Indian System, as the crisis of 1907-08 revealed it, is a Gold Standard supported by Gold in Reserve with a Currency in internal use composed mainly of rupees and notes (paragraph 50).

3. Experience has further shown that though in origin and machinery the Indian Currency System, based on what is now known as the Gold Exchange Standard is different from the Currency Systems of such countries as Russia, Holland, Japan or Austria-Hungary, yet, in actual practice, these latter systems are not very different from that of India (paragraph 51).

4. There remains the argument that without gold in active circulation India's Currency system must remain a "managed" system, it being implied that a managed system is a bad system. The idea with which this managed system is contrasted seems to be the system of the United Kingdom, where fresh supplies of the only unlimited legal tender coins, the sovereign and the half-sovereign, can be obtained at will by any one who takes gold to the Mint for coinage. In our opinion this contrast is of no value. There does not appear to us to be any essential difference between the power to import sovereigns at will, and the power to have gold coined into sovereigns in India (paragraph 66).

5. The idea of a gold mint has been pressed on the ground that it would increase the amount of gold in circulation . . . . The idea that such a Mint would give India an "automatic" currency, in any sense, which is not true of the existing power to import sovereigns at will, appears to us to be wholly without foundation (paragraph 71).

6. If Indian sentiment genuinely demands a Mint, there is no objection in principle to its establishment, provided that the coin minted is the sovereign or the half-sovereign (paragraph 223, VII).

7. The only point of the criticism that India's Currency System is managed in a sense that is not true of the Currency of the United Kingdom lies in the fact that the rupee is a token passing at a value above its intrinsic value, and at the same time is unlimited legal tender. It is true that it is not practicable even to consider the limitation of the amount for which the rupee is legal tender . . . . (but) it is not, in fact, possible for the Government of India to manipulate the Currency for their own ends (paragraph 66).

8. The price of 1*s.* 4$\frac{1}{8}$*d.* for Council Bills approximates the normal gold export point from London to India (paragraph 33).

9. Act XXII of 1899 making the sovereign and the half-sovereign legal tender throughout India at 15 rupees to the £ remains the only statutory provision for the rating of the rupee at 1*s.* 4*d.* and has the effect of providing a statutory means of preventing the rupee from rising above the par of 1*s.* 4*d.* (paragraph 21).

10. In 1906, difficulty in meeting the demand of rupees led to the formation in India of a Special Reserve outside the Paper Currency

Reserve. This Reserve was needed in order to prevent the possibility of the exchange value of the rupee going to a premium over 1*s*. 4*d*. through a failure in the supply (paragraph 30).

11. We advise that the Government should definitely undertake to sell Bills in India on London (Reverse Bills) at the rate of 1s. 3-29/32*d*. per rupee whenever called upon to do so to the full extent of their resources paragraphs 101 and 223, XLI).

From the above it will be seen what the system in India was up to 1913, according to the Chamberlain Commission.

We see

1. That it was what is known as the Gold Exchange Standard.
2. That this was really a Gold Standard supported by Gold in Reserve with internal circulation mainly in rupees and notes.
3. That the rupee was a token and was equal to the fifteenth part of the sovereign, i.e., 1*s*. 4*d*. gold.
4. That 1*s*. $4\frac{1}{8}$*d*. was the upper gold point and 1*s*. $3\frac{29}{32}$*d*. was the lower gold point.
5. That it was a part of the system that the rupee should not be allowed to go over 1*s*. 4*d*.
6. That the system permitted of our Currency being as "automatic" as in the United Kingdom.
7. That it was not possible for the Government of India to manipulate the Currency for their own ends.

The Chamberlain Commission came to the conclusion that the system as found by them was not essentially different from the Currency System of the United Kingdom and gave their benediction to it, adding that "although the belief of the Committee of 1898 was that a Gold Currency in active circulation was an essential condition of the maintenance of the Gold Standard in India, the history of the past 15 years had shown that the Gold Standard had been firmly secured without this condition" (paragraph 223, IV).

The Committee of 1898 above referred to is what is commonly known as the Fowler Committee and this is what they said on the subject of gold in circulation:—

> "We are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a Gold Standard, viz., a Gold Currency" (paragraph 51 of their Report).
>
> "We are in favour of making the British Sovereign a legal tender and a Current Coin in India. We also consider that at the same time the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint . . . . Looking forward as we do to the effective establishment in India of a Gold Standard and Currency based on the principles of the free inflow and outflow of gold we recommend these measures for adoption (paragraph 54 of their Report)."

This most important recommendation of the Fowler Committee was unfortunately brushed aside by the Chamberlain Commission, and it is to this most serious defect in the Indian System that have to be attributed many of the serious errors in practice that the authorities fell into in the past ten years, errors that have cost this country immense losses and have disorganised the trade and industry of the country. The view taken by the Chamberlain Commission that gold in circulation was not necessary was based on the fact that the Gold Exchange Standard System seemed to them to have worked in every essential particular just as well as a Gold Standard would, and in addition seemed to have saved India an appreciable sum in the way of charges for movement of gold to and from India to adjust the Balance of Trade, and brought further profits to the country in other ways. They naturally assumed that the system would be worked honestly, and could not foresee how much easier it was for Governments to manipulate such a system to tide over their immediate difficulties. The experiences of the past ten years have unfortunately provided ample proof to the contrary.

The Practice.

We shall now examine what the pre-war practice was. A close examination reveals that it was not based on any clear understanding of the system. This was noticed even by the Chamberlain Commission, who remark in their Report that " the system actually in operation had never been deliberately adopted as a consistent whole, nor did the authorities themselves appear to have had a clear idea of the final object to be attained, and that to a great extent this system was the result of a series of experiments " (paragraph 45).

But even the Chamberlain Commission do not seem to have been entirely free from the same charge, as they too talk of the " profits " on the coinage of rupees, and they too mix up Currency Reserves with the Balances of the Secretary of State. The pre-war practice will be more easily understood by an examination of the various measures then taken, and by pointing out their analogy to what would have had to be done under a real Gold Standard System.

The first step in going over from a Silver Standard to a Gold Standard necessarily was the decision to close the Mints to silver and to issue fresh currency only against gold. Even here the mistake was made of doing this at a level several pence higher than the level that would have been justified by the current price of silver, and this inflicted on this country five years of great misery, until the Exchange could be screwed up to 1*s*. 4*d*. This was of course done on the recommendations of the Herschell Committee of 1893, but reading their Report one cannot help coming to the conclusion that, in their recommendations, they gave far greater weight to the real or supposed difficulties of the Government of India, and to the assumed impossibility of raising fresh revenues by taxation, than to the correct scientific solution of the problem placed before them. It is necessary to point this out, because it was similar considerations of expediency that led the Babington-Smith Committee into its Himalayan errors, and it is similar considerations that are being put forward to-day to once more divert attention from the correct scientific aspect of the problem. However, the first step was taken as above, and paved the way to an accumulation of gold in the Reserves.

The next step was to try to force this gold out into circulation, but this effort failed as rupees continued to be demanded, and at one time sovereigns as well as notes went to a discount. Failing to understand the correct significance of this phenomenon, the authorities jumped to the conclusion that the people of India did not want a Gold Currency and that it was best to send the gold back to England. However, to meet the persistent demand for rupees, it was decided to coin more rupees and give them out against tender of gold. The so-called " profits " of this coinage were to be kept in a Special Reserve. The very word " profits " in this connection shows that the authorities had no clear idea of what they had embarked on. The position really was this. If gold was tendered to the Currency Office and Notes were asked for, then all the 16*d*. tendered would go into the Reserve, and a piece of paper—a Note—would go out, and the gold would have to remain there until the Note came back for encashment. Similarly, when it was rupees that were called for part of the 16*d*., say 11*d*., would go out as a piece of silver, and the rest would have to remain in the Reserve, to meet encashment in gold *of this silver Note* when it happened to be presented. But the authorities considered it to be " profits " and a part of it was actually diverted to railway building.

So little was the true function even of the Gold in the Paper Currency Reserve appreciated that when Indian Exchange became very weak in 1907-8 and Gold was required to adjust India's adverse Balance of Trade, the authorities could not make up their minds to give it, although the Fowler Committee had clearly laid down that while the Government of India should not be bound by law to part with its gold for internal purposes, they regarded it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the Exchange fell below specie point. Under an effective Gold Standard this would have automatically taken place. Under the Gold Exchange Standard the authorities evidently thought there was no obligation on them to do it. The same want of appreciation of the true function of this gold had led to the Reserves being invested in British securities, and the hesitation to give gold out was probably due to difficulty in realising such securities, because there was a monetary crisis raging at the same time in Europe and America. However, after some hesitation sterling was offered, and sales were continued until exchange again became steady and recovered to within gold point. It was

the Chamberlain Commission that first definitely laid down that Government should undertake to sell Bills in India on London at 1*s.* $3\frac{29}{32}$*d.* per rupee whenever called upon to do so and thereby indicated the action that should be taken in the Gold Exchange Standard System when the lower gold Point, i.e., India's Gold Export point was reached. Henceforth, Council Bills were to be sold at 1*s.* $4\frac{1}{8}$*d.* and sterling *received* by the Secretary of State for India, and Reserve Bills sold at 1*s* $3\frac{29}{32}$*d.* and sterling *paid out* by the Secretary of State, in the same way as Gold would have come in or gone out at one of these two points, and it was only then that the claim that the Gold Exchange Standard System was the same as a real Gold Standard with gold in Reserve, had any justification.

There were two separate Reserves. There was the Paper Currency Reserve and there was the Gold Standard Reserve. The gold in the former was that which came in to be tendered in exchange for Indian Currency whenever the Balance of Trade was favourable. The Gold in the latter was the so-called profits on new coinage. The real function of either of these Reserves was never clearly understood. We have already seen that it was not clearly understood by the authorities that Paper Currency Gold was for conversion of the note issue for liabilities to be met outside India, i.e., conversion of internal currency into international currency, but the authorities did awaken to a true appreciation of it later on. However, so far as can be seen, the true function of the other Reserve, viz., the Gold Standard Reserve has never been clearly appreciated. There seems to have been no recognition anywhere of the fact that this Reserve was for conversion of *the other Notes*—the Notes printed on silver—if they came back in some big crisis to be converted into international currency. Both these Gold Reserves against our Note Issue (paper as well as silver notes) were regarded merely as a fund from which the Government of India and the Secretary of State were to meet their sterling obligations in the event of a falling off in the demand for Council Bills, and it was even thought that the latter (the Gold Standard Reserve) could be legitimately invested in the building of Railways.

It was also decided to keep both these Reserves in London, on the ground that they would in any case be wanted in London, and it was needlessly expensive to allow the gold to first come to India, and then be shipped back to London, and accordingly *the rates for Council Bills were so adjusted as to divert all gold from India to London.* This has been one of the sorest points with Indian public opinion, and the Babington-Smith Committee tried to conciliate it by recommending that the whole of the Gold in the Paper Currency Reserve, and one-half of that in the Gold Standard Reserve should be held in India. However, what we are now concerned with is the method of the diversion of gold from India to London.

This diversion was effected by means of Sales of Council Bills, and naturally resulted in sales of far larger amounts than was needed to cover the Home charges for the year, whenever the Balance of Trade in India's favour was very large. There was bitter controversy over this procedure. On the one hand it was contended that such oversales unnecessarily transferred larger amounts from India to London than was necessary to meet the requirements of the Secretary of State, and that such balances were then lent out at very cheap rates to the London money-market and benefited that market at the expense of India, where the withdrawal of such funds was considered to be one of the causes of high rates in the country. On the other hand, it was contended on behalf of Government that the extra sales were made by Government in order to supply up to the limit of their power the demands of trade for funds in India. It was also urged that Government ought to take advantage of such heavily favourable years to remit extra amounts against a possible lean year that may follow.

Both the above arguments showed that those who took part in this controversy did not understand the correct bearings of the Gold Exchange Standard. The Chamberlain Commission seems to have had a clearer idea of what was happening as they say that "*If the expense and waste involved in the shipment of sovereigns from India to London is to be avoided*, it is necessary for the Secretary of State to sell sufficient drafts, not merely to meet his own requirements on Revenue and Capital Accounts, but also to satisfy the demands of trade up to such an amount as will enable the Balance of Trade in India's favour over and above the amount of the Home Charges on Revenue and Capital Account to be settled without the export to India on private account of more gold than is actually required in India for absorption by the public" (paragraph 176 of their Report). However, even the Chamberlain Commission did not seem to sufficiently appreciate the real significance of these operations, because they

remark (in paragraph 178) that "the interests of trade were indeed of high importance, but that it was not the business of Government to favour trade at the expense of general Revenues." This would seem to show that in their opinion trade *was* being favoured which was clearly an error. They then lay down (in paragraph 179) that "the right view is that the extent of the sale of Council Drafts depends on the requirements of Goovernment whether immediate or prospective," and that "if the Government were to exceed their requirements, they would lay themselves open to the charge of manipulating Government funds for the benefit of trade (paragraph 180)." This last remark shows that even the Chamberlain Commission failed to see that *unlimited drawings up to the full requirements of trade, i.e., up to the full extent of the surplus trade balance, was a necessary element of the Gold Exchange Standard System with Reserves in London.* If the Reserves had been allowed to be held in India, the Secretary of State would never be asked to sell a single rupee more of Councils beyond his own requirements, because trade could take gold to the Currency Office in Bombay or Calcutta, and there would be no need for them to go to the Secretary of State, and that, therefore, all talk of convenience or of benefit to trade was misleading.

Let us now examine the argument of the other side, *i.e.*, of those who contended that immense sums were needlessly transferred from India to London, and deprived the Indian money market of funds to which it was legitimately entitled. These people also failed to understand the correct application of the Gold Exchange Standard, and they too, therefore, *failed to point out the real evil,* from which they somehow felt that they suffered. What happened was this. If the Gold Exchange Standard had been allowed to freely operate, all Council Bills over and above the amount required for the year for Home Charges would have been understood to be, and treated as, substitutes for imports of gold to India for tender to the Currency Office. Therefore, *fresh currency would have come out into circulation against all such Bills, and the proceeds of such Bills would have gone,* not into the balances of the Secretary of State, but *straight into the Paper Currency Reserve. This would have provided the automatic expansion of the circulation that the trade then required.* Instead of this the excess Bills were treated as additional remittances for the ordinary requirements of the Secretary of State, and nc fresh currency came out of the Currency Office until Government here found itself short of funds. The result was that there was a transfer of funds from credit of Government to credit of banks. Not a rupee was added to the existing supplies in the shape of additional coinage or additional note issue, the automatic expansion of currency was prevented, and trade and industry felt the pinch without understanding why. If the Bills had been treated as on account of the Currency Department, there would have been a fresh supply of funds in the Indian market, while the proceeds of such Bills would not have been permitted to go on the short loan market in London, but would have been held in gold in the Currency Reserve or invested on behalf of the Currency Reserve.

Failing to appreciate the true significance of excess Council drawings the Chamberlain Commission have also failed to give the correct lead in the matter of the amounts to be drawn and the rates at which they should be drawn. They say that "the India Office perhaps did sell Council Drafts unnecessarily at very low rates on occasions when the London Balance was in no need of replenishment, but they still did not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of Drafts sold or the rate at which they were sold, provided that it was within the Gold Points (paragraph 223)." A correct application of the Gold Exchange Standard, as defined by this Commission itself should have led it to lay down that while the drawings for his ways and means requirements as budgetted for might be at the best current rate* within the Gold Points, exactly as the drawings of any merchant who had liabilities to meet in England, the other drawings, *i.e.*, those on account of the Currency Reserve, should be at the Gold Points and the Gold Points only.

We have now seen what the pre-war system and practice was. We have seen that the various steps that were taken were taken at haphazard, and that there was no clear understanding of the system and of its working as a whole. The crisis of 1907-8 found the authorities unprepared as to their obligations under the Gold Exchange Standard System. As the Chamberlain Commission remarks, "no one in either official or unofficial circles had any experience of the machinery required for meeting the crisis, nor had any plans been fully worked out in advance for dealing with such a crisis." Hardly had the ink been dry on their Report,

* For this, the method of public tenders is the best.

then the war came on, and the authorities were face to face with another crisis, and the mistake of 1907-8 was repeated, *i.e.*, gold was again given out for internal purposes, but they had to stop this very soon. Drafts on London were, however, also offered at the same time, and again, as in 1907-8, a little under £9 million sufficed to tide over the period of weakness of exchange. Both the above crisis—that of 1907-8 and this one of 1914-15—were of a temporary Balance of Trade *against* India. The Currency System of the country had now to face a different kind of crisis, viz., that of a heavily *favourable* Balance of Trade without the normal means of adjusting the same, as there was a general embargo on the export of gold by all the principal trading countries. Once again the Indian Currency authorities were found unprepared to meet this eventuality, and once more the country had to pass through "a series of experiments" some of which have cost it extremely dear, and, what is still more unfortunate, the end of them is not yet in sight.

After the first shock of the War had been got over, there arose an immense demand for Indian goods and services, and the Balance of Trade in favour of India began to grow rapidly. The position was abnormal, because, normally, the drawings of the Secretary of State for meeting India's liabilities at home would set off a good part of its favourable Balance of Trade, Imports of Treasure would set off another very considerable part, and only a small amount would remain to be adjusted by imports of cash (*i.e.*, gold for tender to the Currency Office). But, with the progress of the War, the first was almost entirely eliminated, because the Secretary of State had to receive in London, by way of recoverable expenditure incurred by the Government of India on account of the Imperial Government, very large amounts which not only covered the Home Charges but left a large surplus. As for Treasure, gold was out of the question, and so the whole of the surplus had to be brought in, either in silver or in cash. The position was further complicated by the fact that the Government of India had to make enormous disbursements for War purposes, both on its own account and on account of the British Government, and very large amounts of currency were needed. As the condition of the masses was also much more prosperous on account of the War demand for their goods and services, the demand for silver for ornaments was also daily larger. At the same time, the output of silver from the mines seriously fell off for various reasons. As the Indian Currency authorities never gave much thought to their Currency problem until they were face to face with them they went on issuing Currency in India against tender of Sterling to the Reserve in London, and went on coining and giving out rupees as long as the silver was to be had. If we had been on an effective Gold Standard with gold in circulation, such a thing would never have happened. The Indian Government like every other gold country would have been forced to go to inconvertibility of the Note Issue, from the very beginning, as in Egypt, but the existence of the fraudulent rupee —(the token that masqueraded as the standard coin)—enabled the Indian Government to maintain a show of convertibility of their Note Issue till well into the latter part of 1917 without any change in the system or practice. Silver had already begun to rise from the strain put on it, and in August, 1917, it had risen to a point where the bullion value of the rupee exceeded 1*s.* 4*d.* The first aberration from the Gold Standard then came about. The public was gravely told by the Secretary of State that he could not supply further coin without loss and that consequently the rate of exchange had to be raised to 1*s.* 5*d.* The rate was further raised by successive stages to as much as 2*s.* 4*d.* by December, 1919, on the same ground, viz., that of loss on coinage of rupees at the then rate of silver. The authorities seemed to have clean forgotten the findings of the Chamberlain Commission. They seemed to have forgotten that India had been placed on a Gold Standard and that the rupee was only a token—only a note printed on silver—and that if the material on which this note was printed proved too dear, the right way was to use other or cheaper material. That the highly intelligent men in charge of our Currency System should so easily fall into such gross error is sufficient proof of the deceptive nature of the Gold Exchange Standard System. I was among some of the first of those whose raised their voice in protest against this heresy of changing a unit in a *gold* Standard System on the ground of a change in the value of *silver*, but, as mentioned above, the authorities went complacently on their way. What they could have, and should have, done is described in my Memorandum, submitted to the Babington-Smith Committee, of which I attach a copy herewith, and to which I beg to refer. It is noteworthy that, a little later on, when silver touched a higher level, other countries including England had exactly the same problem to face in respect of their own token currency, and we all know how they faced it.

The next important stage in the practice was reached with the Report of the Babington-Smith Committee. The terms of reference to this Committee were :—

"to examine the effects of the War on the Indian Exchange and Currency System and practice, and on the position of the Note Issue, and to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation and to ensuring a stable Gold Exchange Standard."

This famous Committee came to the conclusion that the price of silver was likely to remain high, very high, for many years, that it could not in any case fall below G. $1 per oz. for years, and that the rate of the rupee would have to be at least 1*s*. 6*d*. gold to fit in with this price of silver. (They have not told us what the price of *silver* had got to do with a *gold* Unit as the rupee undoubtedly was in the Gold Standard System, but this is only by the way.) But while this Committee was still sitting, Exchange had been put up much higher, and it seems to have aroused ambitions in influential quarters of putting India back to 2*s*., which was the coveted goal in the early 'nineties, and the return to which was being urged in Anglo-Indian circles ever since 1917. Hence 1*s*. 6*d*. was not good enough. The opportunity of putting the rupee up to 2*s*. was too good to be missed, and so this famous Committee decided to recommend 2*s*. and they regale us with sophistries to justify this course in paragraph 43 of their Report.

To further justify this most unwarranted course they went into an argument about prices, which be it remembered, did not form any part of their terms of reference. They forgot that India was not the only country that was suffering from high prices. England suffered still more, and yet no one in England had dared even to suggest that there should be only 12 shillings in the £ instead of 20. The British public would never have tolerated such humbug, but apparently anything was good enough for India. This Committee was very emphatically warned against hasty action in the then abnormal circumstances, but they had apparently a mandate not to disperse without definitely fixing a new rate, and so, fix it they did. The warning I refer to above, came amongst others from the representatives of the Exchange Banks who appeared before that Committee to tender evidence. This is what they said—

Our opinion is that the conditions we have been going through during the last four years—the war period—have been *absolutely artificial in every way*; they are artificial to-day, and it hardly seems reasonable to suppose that in the light of artificial conditions you are going to upset a system which has been in force with much success from 1893 to 1914. It seems unreasonable to do that in the light of the artificial conditions which have been ruling, and which have not yet disappeared. *We feel that it is absolutely necessary to get back to a state of normality before any attempt is made in any way to alter principles laid down in* 1893 *and as brought up-to-date in the Chamberlain Commission Report of* 1914. In view of the experience that we have been through during the last four years, *we cannot see any ground whatever for making a drastic change in India's Currency System.*

And again

When things begin to move in India, they move very quickly, particularly in a financial way; we have all had experience of that. As to the result of what the changes may be, it is impossible for any of us to foretell, but when a change comes, it comes very quickly, and you may then look at a thing from a totally different perspective to that in which you look at it to-day. *Your perspective to-day is warped;* you are living in an artificial atmosphere. If you get away from that, your horizon may be totally different from what it is to-day. Judged in the light of things as they appear to-day, *I would not say for a moment that we should formulate or attempt to formulate an opinion now* as to what the permanent policy should be, which you may have to bring into force three years hence. It would be a waste of time in my opinion.

It was most fortunate that the Babington-Smith Committee decided in spite of it all to fix some rate at once. Even this Committee did not feel itself on very sure ground as it hedged in its recommendation by saying that—

"If contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of production failed to adjust themselves

> with equal rapidity to the lower level of prices, then it might be necessary to consider the problem afresh."

Yet in spite of it all, they thought it incumbent on themselves to fix some rate, because forsooth " postponing such action would entail prolongation of Government control." They evidently considered such control very undesirable, but it was their own rash fixing of a new rate that led to such undesirable control over currency for another six years.

I would beg to refer once more to my Memorandum to this Committee, where I have shown from previous history why silver prices (and incidentally commodity prices too) were bound to come down (paragraph X, pages 5-7). I do this only in order that it may not be thought that I am trying to be wise after the event. The whole trend of the Commitee's inquiry was in the direction of finding arguments for a pre-conceived opinion, otherwise the very fact that the great rise in the prices of food-grains in the latter part of 1918, which naturally affected the general price level, was very largely due to the serious and widespread failure of crops in that year, and to which the Committee's attention had also been drawn, should have made them pause. I do not wish to tire the present Commission with further remarks, on the shortcomings of this Committee, and will, therefore, point out that the most important currency consideration, viz., the sanctity of the standard unit, does not find any place in their considerations, nor do they seem to have perceived even distantly that the change they proposed would vitiate all contracts and would operate as a fraud on one of the parties to such contracts. Both in the matter of the standard unit and of high prices the action of England for its own currency was most circumspect, and is in strange contrast to the haste exhibited in the case of India. It has even been alleged in the press that—

> " the error of the 1919 Committee would not have been perpetrated but for the accident that one member was absent from its sittings when the most important evidence from India was given and *on his return he rushed his colleagues into a sudden conversion to the two shillings rupee.*"

If this is at all correct, it shows how lightly questions so momentous to the whole economic fabric of India have been treated in the past.

We now come to the next stage, which will ever remain a blot on the Currency administration of this country. The Secretary of State at once accepted the recommendations of the above Committee, and issued certain orders for effect to be given to them, the result of which was that there was a most criminal dissipation of India's Currency Reserves through sales of Reverse Bills, Post Office Money Orders, Sales of Gold, etc., etc., the loss on which must run into enormous figures. I do not wish to take up any space here in a discussion of these most unfortunate operations, and would refer the Commission to a work called " A Chapter in India's Currency History " of which I beg to attach a copy herewith. I would also urge that the correspondence between the Secretary of State and the Government of India *re* Exchange and Currency for this period be called for, so that the Commission may see how far each step was justified by the circumstances of the situation, and who it was that was really responsible for these disastrous operations. This suggestion is not put forward by way of mere idle curiosity. I shall not be surprised if it turns out that persistence in the sales of Reverse Bills, etc., in spite of strong public protests, was forced on the authorities here by the India Office in spite of themselves, and, if it does turn out to have been the case, the Commission may find it necessary to make recommendations that will free the Currency System from India Office domination in the future. The only other remark I would here make is that the operations undertaken for the establishment of their new ratio were very amateurish, and showed a clear lack of appreciation by the authorities of the working of the Gold Exchange Standard System. It was again a series of experiments inflicted on poor India.

We now come to the next stage. The frantic efforts made during the above operations had most miserably failed, and the rupee could not be maintained at 2*s.* gold, but went crumbling down to 1*s.* 10*d.* sterling by September 1920, which at the cross rate of the day was even less than 16*d.* gold. The disasters so far wrought might be put down by some to errors of judgment in the then abnormal circumstances all over the world, but nothing could justify the next step, viz., the change of the ratio in the Indian Coinage Act and in the Indian Paper Currency Act which was carried through in spite of and after all these failures, and at a time when Exchange was already back to 16*d.* gold. I would ask the Commission to look into the correspondence for this period, and see who it was that was responsible for forcing through this new ratio in spite of all that had happened.

One of the members of the then Legislative Council—Mr. R. D. Tata—most earnestly prayed for only a postponement of this action till the following Session of the Assembly, but it was of no avail, and the new ratio was put on the Statute Book. The speeches of the Finance Member who piloted the two Bills through the Council are full of fallacies, which once more show how little the Indian Currency authorities understood the system they were working. However, we need not go into these here.

There was now provided a most potent instrument for rigging up Exchange by preventing automatic expansion of currency on the basis of 16*d.* gold. Previous currency history clearly shows that India needs an expansion of a few crores year by year, and that this was the case not only during the period before the closing of the mints, but also ever since 16*d.* became effective in 1900. This one factor alone would slowly but surely have contracted the circulation, and forced exchange up to the point aimed at. But as in 1897, the authorities found it too slow, and so not only was further expansion prevented, but contraction of existing supplies was also step by step carried on, as shown in Chapters 6 and 7 of my book " India's Exchange Problem," of which I beg to hand in a copy herewith and to which I beg to refer.

To repeated representations to Government that the Bill might be once more amended and the 16*d.* gold ratio restored, there was only one answer, viz., that world conditions were abnormal, and they thought it best to wait. Meanwhile contraction of the circulation steadily went on, and the money market became tighter and tighter, but Government continued to claim that they were doing nothing, that the rise of exchange was natural, and that the money tightness was what had happened frequently before in the busy season. I do not wish to tire this Commission with extracts of these replies, and will, therefore, content myself with indicating the attitude taken up by Government since 1923 with regard to the restoration of the pre-war rate, as it has an important bearing on the issues the Commission has now before them. In March 1923 the T. T. on London was about 1*s.* $4\frac{1}{8}$*d.* sterling, and the cross rate being about 4·68 this rate was equal to only about $15\frac{1}{2}$*d.* gold. A return to 1*s.* 4*d.* gold began to be now advocated from other quarters besides the Indian Merchants' Chamber, and Prof. Jevons of Allahabad, who probably had as great a share as any other man in the happenings of 1920, showed in a series of articles to the *Times of India* how deflation had been carried on, and advocated a return to 1*s.* 4*d.* gold. In July of the same year the *Times of India* had a special cable from London, which said among other things that—

> " the general impression that the India Office authorities *have now in mind a policy of stabilizing the rupee at* 1*s.* 4*d.* is held to have been exercising a strong influence since early spring and preventing a renewed rise (in the rate of Council Bills)."

A couple of months later, i.e., in September 1923, the Indian Merchants Chamber addressed the Government once more and urged the restoration of the pre-war ratio. But Government had always the same stereo-typed reply. Exchange was then at about 1*s.* $4\frac{3}{16}$*d.* sterling which at the cross rate of the day of 4·55 equalled only about $15\frac{1}{8}$*d.* gold, *so that the ratio of* 1*s.* 4*d. could have been easily restored on the Statute Book even then, without adversely affecting any interests whatsoever.* But evidently the authorities wanted the rate to be screwed up as high as it could be done without drawing too much attention to the process.

We now come to another stage in the manipulations. The *Bombay Chronicle* in its issue of 10th October, 1923, published a warning note from its London correspondent against attempts that were shortly to be made on India's Gold Reserves. On the 15th November, 1923, Government showed their hand. They came out with a *fait accompli* by announcing the transfer from the Paper Currency Reserve of £2,000,000 of gold and a substitution for the same of £2,000,000 of securities. To those who understood how currency was being manipulated, this was clearly another step in the policy of deflation that had been steadily pursued for years. However, the public was told that it was all done to get a profit for India. Indians naturally wondered why the Bank of England failed to make similar profits for its own people by selling its own gold. It is difficult to say where the authorities would have stopped but for the great outcry from Indian commercial circles.

Then came a very elaborately drafted pronouncement by the Finance Member, Sir Basil Blackett. It was on the 4th December, 1923, on the occasion of the meeting of the Associated Chambers of Commerce of India and Ceylon in Bombay.

In this speech Sir Basil Blackett made a detailed examination of the resources India could command for the maintenance of the rate of Exchange, and his conclusion was as follows:—

> "There can be no doubt that in present circumstances our Reserves are ample in case of need for the support of exchange to the extent necessary to maintain the value of the Rupee at 16*d*."

In the course of the same speech he explained that he would not have 16*d. sterling*, because exchange was 17*d*. sterling then, and, going back to 16*d*. sterling might mean inflation. On the other hand, he would not declare 16*d*. gold to be the object, because, if this was done,

> "an immediate tendency would set in for exchange to move towards its ultimate level; the future would be liberally discounted . . . export trade would be brought temporarily to a standstill, and, in fact, we should have been faced immediately by all the difficulties of an unduly appreciated exchange."

The cross rate then was 4·35 or so, which meant that 1*s*. 5*d*. sterling was equal to only about 15 3/16*d*. gold. It will, therefore, be seen that the old ratio could have been easily restored even then, and exchange allowed to find its own level without serious hardship on any one. The Indian Merchants' Chamber once again urged Government to take action, and pointed out that there was no question of linking with Sterling, because in our only two Acts dealing with this particular matter *the Rupee was linked to gold and gold only*. This was in the middle of January, 1924, when T.T. on London was 1*s*. 5⅛*d*. sterling, equal to 15*d*. gold at the cross rate of the day. Money market was getting extremely tight, and a repetition of the experiences of 1897-98 was only averted by the issues of fresh currency against deposit of sterling in the Currency Reserves in London, and of Emergency Currency issues, methods which were quite unknown 30 years ago.

On 25th January, 1924, Government sent a reply to the above representation of the Indian Merchants' Chamber, in which they said that—

> "on the desirability of working towards an eventual restoration of the Gold Standard both the Government of India and the Indian Merchants' Chamber were agreed, but if the ratio of 1*s*. 4*d*. gold was to be achieved, it would be necessary to begin by removing the discount at which the Rupee then stood below parity reckoned at that rate."

This would convey the impression that the old ratio could not be restored until the rupee was nearer parity.

Exports were now very heavy, and as automatic expansion of currency through imports of gold was not allowed, and Government gave out only as much currency as it thought best, we were face to face with a most serious financial stringency, and Bank Rate touched 9 per cent. in the middle of February. The position may be best described in the words of a special article in the *Times of India* on 16th February, 1924:

> "It is reported that the Imperial Bank has already utilised to the full amount permissible under the Paper Currency Act, the facilities from the issue of Currency Notes against Commercial Bills of Exchange. Yet, in spite of the extra Rs. 12 crores thus made available, the cash balance at the Bank did not exceed 12 crores, as shown by this week's statement of affairs. When, by the amendment to the Act passed last year, the system by which the Bank was enabled to borrow from Government was extended from the maximum of Rs. 5 crores to Rs. 12 crores, an important advance in the facilities to meet the emergency demands for cash was effected. It might be asked what the situation would now be, and to what level the Bank Rate would have risen at this juncture had it not been for the extension of these facilities."

This correspondent then urged a further extension of the emergency issue powers, and, in doing so, was merely voicing the opinion in commercial circles of the best method of combating the stringency, because it was not understood except by a few that it was the prevention of automatic working of the currency that was the real source of the trouble. However, we shall deal with this point when we consider the modifications of the system for the future.

The starvation of the country in the matter of its currency needs was the topic of the day, and was brought to the notice of the Finance Member by the Chairman of the Indian Merchants' Chamber on the occasion of his visit to that

body early in July, 1924, and a return to 1*s.* 4*d.* gold was again urged. In his reply the Finance Member said:—

> "The Government's attitude is that it would be possible to pass an Act, here and now, to say that the future ratio of the Rupee and gold shall be Rs. 15 to the gold sovereign, (but) . . . as a matter of fact the ratio between the Rupee and gold has never yet been as high as 1*s.* 4*d.* gold. . . . . It has been claimed in your speech, Sir, that India has been starved of currency in the last year, that India has not had the currency it required. If our idea is to reach a parity of 1s. 4d. gold at the earliest possible opportunity we are, I think, open to the accusation that during the last winter we provided India with more currency than was necessary. . . . If we altered the ratio to 1*s.* 4d. gold, as suggested, I maintain that the new ratio would be equally ineffective (as the 2*s.* ratio) so long as we did not take further steps so to manage or manipulate the currency as to secure that the ratio of 1*s.* 4*d.* gold were reached and were maintained."

It will be seen that the Finance Member here abandons the argument he had put forward at the meeting of the Associated Chambers that from the very fact of this ratio being made the goal "an immediate tendency would set in for exchange to move towards its ultimate level." He also begged the whole question in the last sentence above quoted. There would have had to be manipulation if the ratio was to be not only reached, but maintained, but nobody had suggested that this was also to be done. 16*d.* could have been made the legal ratio, and exchange could then have been left to find its own level. But the object of Government in refusing to take action was to have a chance of tampering with the rate a second time, as will be seen later on.

The Finance Member took another opportunity of defending Government policy against the charge of causing grave monetary stringency on the occasion of the opening ceremony of the branch of the Central Bank of India, Limited, in Calcutta on 11th July, 1924. He then said:

> "Stringency in the money market has its roots in the facts of nature. In a country which is predominantly agricultural more currency is necessarily required in those periods of the year when crops are harvested. . . . I am not sure, however, that the stringency last winter and spring was not accentuated by the very fact that the Government were known to have passed the new Act allowing them to increase the amount of Emergency Currency issued against 'hoondies,' and were known to be desirous of mitigating stringency as far as possible. If one of the results of the provision of emergency facilities is to lead to the locking up during summer by Banks and others of funds, which they would otherwise have kept liquid for use in winter, the emergency provisions can contribute nothing to a solution of the problem, and we are just as well off without them."

The recourse to seasonal stringency as the real explanation of the problem showed that Government did not understand the meaning of an automatic currency, nor appreciate the need of it. The charge on Bankers of imprudence in the investments of their funds was equally unwarranted, and it was probably this that at last compelled the Bengal Chamber of Commerce to speak out.

In a letter addressed to the Government of India and dated the 16th July, 1924, they draw attention to the serious stringency that had prevailed during the past busy season, and point out—

> that this was due to the fact that the requirements of the country in the way of currency were not being adequately provided for, that it would not be contested that every progressive country required a steady increase in its currency year by year, that the sale of Council Bills did not to-day ordinarily result in an increase of currency, that it was only when the purchases were made by the Currency Department that additional currency was created, and that a supply of currency adequate to the requirements of the country should be the paramount consideration. They thought that the difficulties would disappear when an effective standard was again established, and that the weakness of the position in the present transitional period lay in there being no provision for a permanent or at least quasi-permanent expansion as distinguished from the seasonal increase. They then suggest purchases of sterling at the market rate ruling at any time when the Imperial Bank balances were unduly low, and payment for such

> purchases from the Currency, and further emphasise that it should be at full amount of the purchase money, and not only Rs. 10 per £ from Currency, and the rest from the Treasury, as was being done by Government.

(This last refers to another of the devices adopted by Government for keeping the circulation restricted, and which was in direct contravention of the provisions of the Paper Currency Act.) The Bengal Chamber close the letter by repeating that "their Committee had grave apprehensions as to what the situation would be next cold weather unless some remedial measures were put into operation." This is emphatic evidence from European Commercial and Banking circles as to what the position was. They, however, refrained from pointing to the need of a return to 1*s.* 4*d.*, because during the previous four years, the Government had adroitly given the agitation for a return to the pre-war ratio a political turn, and the European Commercial Community was perhaps anxious to avoid anything that tended to add to the supposed political difficulties of the Government.

As Government refused to take any action for the restoration of an effective standard in spite of all that had happened so far, the Indian Merchants' Chamber thought that the time had arrived for the question to be brought up before the Legislative Assembly, and their representative in the Assembly, Sir Purshotamdas Thakurdas, accordingly put forward two Bills for the re-amendment of the Indian Coinage and the Indian Paper Currency Acts, so as to restore the pre-war ratio. This was in the latter part of August, 1924, and the Session of the Assembly terminated on the 23rd September, 1924. Exchange during this period fluctuated between 1*s.* $5\frac{5}{16}$*d.* and 1*s.* $5\frac{5}{8}$*d.* sterling, which at the cross rate of the day was equal to 1*s.* $3\frac{15}{16}$*d.* to 1*s.* $4\frac{1}{8}$*d.* gold. It is most important to remember this because Government now claim that they cannot possibly go back to 16*d.* gold without serious injustice and hardship to various interests. Any amount of hardship should not stand in the way of justice being done to the teeming millions of India, but if this difficulty is a real difficulty, Government alone is to blame, because they could have accepted the two Bills of Sir Purshotamdas, and India could very smoothly have got established once again on the pre-war ratio in September, 1924.

But Government obstinately refused to take any action. Their object evidently was to once more take advantage of the facilities that the fraudulent Gold Exchange Standard System gave them, and to push exchange a few pennies further up. I would ask the Commission to call for the correspondence between the Government of India and the Secretary of State, and to see who was responsible for this second attempt at a currency fraud in India.

This brings me to the end of the examination of the practice since 1920. Briefly put, it was a constant pumping out of currency from circulation in order to raise Exchange, and the occasional pumping in of a few fresh crores when the situation would otherwise become too dangerous. What the goal was, and whether any definite goal was kept in view, it is very difficult to say without a full knowledge of the correspondence on the subject between the Government of India and the Secretary of State, but so far as can be judged from the public utterances quoted earlier, a restoration of the pre-war ratio was not attempted all these years simply because the rupee was still at a considerable discount from parity at that ratio, and because any hasty action would call forth the forces of speculation, and affect trade and industry adversely. In any case, it will be seen that Government was satisfied that it had very ample resources to maintain Exchange at 16*d.* gold whenever such ratio was made effective. Some time during July-August, 1924, this goal seems to have been given up when almost within reach, and 18*d.* made the next goal.

Modifications Proposed.

We shall now consider what modifications in the past system and practice I consider advisable. The first and foremost of my recommendations is

A Gold Standard with a Gold Currency.

The Gold Exchange Standard System should be given up, because it was clearly shown in 1917-20 and again in 1924 that this system can be manipulated by Government for its own purposes in spite of the findings of the Chamberlain Commission to the contrary. We must give the country an honest standard, and this, under present world conditions, can only be an effective gold standard with a gold currency.

A gold currency is absolutely necessary, so that the people of this country may come to know what their real standard coin was, because it was their delusion that the Rupee was the Standard Coin that was responsible for the supposed necessity during 1917-20 of buying silver at almost any price, and giving this Rupee to the public. Even the authorities in charge of the currency of India do not seem to have understood what their currency was, as they so seriously talked of the impossibility of debasement and of resorting to inconvertibility in connection with this token Rupee. The delusion of the masses can therefore be more easily understood. We have, then, to see that India hereafter has its own gold coin, and that it is this coin that is the only ultimate legal tender and the only money of account, and that all contracts (after a given date) shall be in terms of this money and this money only.

The Gold Mohur to be the Unit.

In my opinion, this coin should be the Gold Mohur of 1918, which was of exactly the same size, weight, and fineness as the sovereign, although the latter may also be allowed to freely circulate in this country as full legal tender. I consider a coin of our own necessary, because we must provide for gold to come direct to India, and must mint it here, and the minting of the sovereign in India depends on the British Treasury agreeing to a Branch of the Royal Mint being allowed to operate in this country. My fear is that, in some future crisis, this permission might be withdrawn, and the Indian Currency might once more become the victim of manipulation by some future Government for such purposes as may seem to them to be of most immediate expediency.

If smaller gold coins are considered desirable I would not have the half-mohur of Rs. 7½, but a unit more in consonance with Indian idiosyncracy, i.e., of Rs. 10, and with a special name given to it. I personally do not think such a coin at all necessary.

Relation of the Rupee to the Mohur.

The next thing to be considered is the relation of the present Rupee to this Mohur. I think it should be 15 to 1, as was actually imprinted on the reverse of the Mohur of 1918. Any other relation constitutes a fraud. If it was 18 to 1, it would be a fraud on all creditors, as they would have to be satisfied with only 100 mohurs (or sovereigns) instead of 120, to which they would have been entitled. On the other hand, 13⅓ to 1, which is the ratio at to-day's exchange would, if made permanent, be a fraud on all debtors, because they would be compelled to pay 135 Gold Mohurs instead of 120 to satisfy the same debt of Rs. 1,800. I know the ratio of 18 to 1 is not even dreamt of to-day, but I purposely give both cases, so that it can be at once seen that a change in one direction is as fraudulent as it is in the other. In fact, when it is borne in mind that the agricultural population constitutes over 70 per cent. of the total population of India, and when it is further remembered that this enormous population is extremely poor, and is heavily submerged in debt, the very idea of increasing their burdens by currency manipulation cannot be tolerated for a moment by anyone who claims to have the interests of the agricultural population at heart.

Those who advocate that the Rupee should be placed on a higher ratio than 15 to 1 (say 13⅓ to 1, or 1*s.* 6*d.* Gold) glibly talk of the Rupee being a mere counter, and there being no sanctity about a particular ratio, and so on. These gentlemen either do not understand, or they fail to give sufficient weight to the three different functions of standard money. Standard money is not only a medium of exchange, i.e., a counter that merely facilitates the exchange of goods and services. *It is also a measure of value and a store of value.* As a *measure*, its size should remain constant just as measures of length or weight, e.g., a yard or a lb. must remain constant. If the sanctity of the yard or the lb. is violated, it leads to frauds in transactions that depend on these two measures, and in every country the law provides very heavy punishments for those who tamper with such measures. Any tampering with the standard measure of value is equally unpardonable. The layman may say here that I was perfectly right so far, but my argument had no application to India's case, because the Rupee was to be of the same size, weight, and fineness as it ever was. Such a misconception is due to the fraudulent nature of the Gold Exchange Standard System. It is quite true to say that the Rupee coin remains what it was, but the Rupee is made of silver, and India had been, according to the Chamberlain Commission, firmly established on the *gold* standard. *Therefore, our standard*

measure must be a gold coin of a particular weight and fineness defined by law. The Rupee merely represents this coin. What it was that this Rupee represented is seen in our Coinage and Paper Currency Acts as they stood before September, 1920. It represented 7·53 grains of gold, and it must continue to represent 7·53 grains of gold.

What I say above is not merely my individual *ipse dixit.* We have very high authority for it, no less than that of the British Treasury authorities. They were approached in 1879 for an opinion on the advisability of raising the exchange value of the Rupee, from what it then was, to 2*s*., and this is what they said in their letter to the Secretary of State for India under date 24th November, 1879 :—

"1. The proposal appears to be open to those objections to a token currency which have long been recognised by all civilised nations, *viz.*:— That instead of being automatic, it must be managed by the Government, and that any such management not only fails to keep a token currency at par, but exposes the Government which undertakes it to very serious difficulties and temptations.

"2. It appears to my Lords, that the Government of India, in making the present proposals, **lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies.** In general, the object of such Governments has been to **diminish** the amount they have to pay to their creditors. In the present case, the object of the Indian Government appears to be to **increase** the amount they have to receive from their taxpayers. **My Lords fail to see any real difference in the character of the two transactions.**

. . . . "If, on the other hand, it is the case that the value of the rupee has fallen in India, and that it will be raised in India by the operation of the proposed plan, **that plan is open to the objection that it alters every contract and every fixed payment in India.**

"**This proposal is, in fact, contrary to the essential and well-established principle of the currency law of this country, which regards the current standard coin as a piece of a given metal of a certain weight and fineness, and which condemns as futile and mischievous every attempt to go behind this simple definition.**

"It is perfectly true as stated in the despatch (paragraph 41), that the 'very essence of all laws relating to the currency has been to give fixity to the standard of value as far as it is possible,' **but it is no less true that, according to the principles which govern our currency system, the best and surest way, and, indeed, the only tried and known way, of giving this fixity is to adhere to the above definition of current standard coin.** A pound is a given quantity of gold, a rupee is a given quantity of silver; and any attempt to give those terms a different meaning is condemned by experience and authority.

"3. If the present state of exchange be due to the depreciation of silver, the Government scheme, if it succeeds, may relieve :—

"(1) The Indian Government from the inconvenience of a nominal re-adjustment of taxation in order to meet the loss by exchange on the home remittances.

"(2) Civil servants and other Englishmen who are serving or working in India, and who desire to remit money to England.

"(3) Englishmen who have money placed or invested in India which they wish to remit to England. But this relief will be given at the expense of the Indian taxpayer, and with the effect of increasing every debt or fixed payment in India, including debts due by riots to money-lenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India, which have been contracted on a silver basis."

The above verdict of the British Treasury Authorities is very emphatic indeed, and expresses without any circumlocution what the proposals of the Government of India to raise the Exchange value of the Rupee really amounted to. The attempt then was to put the Rupee up from 20*d*., its then value as a silver unit, to 24*d*. In 1895-1900, the Rupee was actually put up from about 11*d*., its then current market value as a Silver coin, to 16*d*. Gold and was thenceforward a

token in a Gold Standard System. In 1920 they tried to put it up from the same 16*d*. which was its gold value since 1900 to 24*d*., and to-day the idea seems to be to put it up from that same 16*d*. to 18*d*. and the above remarks equally apply to all the four cases.

RUPEE TO CONTINUE UNLIMITED LEGAL TENDER.

We have next to consider whether any limits can be put on the legal tender quality of the Rupee. I have given very considerable thought to this question, and have come to the conclusion that in view of the enormous amount that must be now in circulation or in hoards, it is not practicable to consider any limitation at this stage. I would, therefore, allow the existing Rupees to continue to be full legal tender for any amount as at present. When the Gold Currency gets firmly established in the minds of the public as the real money of India, the position of the Rupee can be reconsidered. **I would, however, make it clear that this refers only to the Rupees now in existence. No fresh Rupees are to be coined on any account.**

As for the smaller coins, the present silver half-rupee is also unlimited legal tender. It should now be limited to legal tender up to Rs. 10 only, also all coins under one rupee, if they are to be made of silver, should be of about the same fineness as the present English shilling.

THE NOTE ISSUE.

We have next to consider the position of the Note Issue. If the coinage of rupees is stopped, all further expansion of currency will in the first instance be in Notes issued against gold. The Paper Currency Act already provides for this, but it should be modified to read that the issues be made against gold coin or bullion tendered to the Controller in British India. There is no reason why this cannot be done. England does not produce an ounce of gold. It is all produced many thousands of miles away, and can be more economically brought direct to India, where it can be used for the new Gold Currency. This will also provide for all further backing to our Note Issue being in gold and gold alone, and will gradually build up our Gold Reserves without unduly encroaching on the gold supplies of the world about which there seems to be so much apprehension in certain financial quarters in London.

ENCASHMENT OF NOTES.

We have next to consider the encashment of these Notes. I propose that until our Reserves are sufficiently strong, the obligation to give gold for rupees or Notes should not be undertaken, and that the Note Issue Department should have the right to cash Notes, either in gold, or in silver rupees, or in both, as may be most convenient at the moment. This will obviate any danger of the very moderate stocks of gold (with which we must necessarily begin), being depleted too rapidly, and is no new suggestion but only an application of the practice of the Bank of France to our future Gold Standard System. Like the Bank of France I would give gold out to all *bonâ fide* applicants for export. In fact, I would not put any hindrance in the way of such exports whenever they are necessary to adjust trade balances. As we shall have a very large amount of sterling securities in our Reserves when we inaugurate the system, I now propose that the practice should be to first use these up until the total amount of securities is entirely replaced by gold bullion. The result will be that when India has to *pay*, it is securities that will *go out* of the Reserves, and when India has *to receive*, it will be gold bullion that will *come in* and in this way, in the course of time, all the securities in the Reserve will be converted into bullion without the least friction or disturbance to the money markets of the world.

THE ONE-RUPEE NOTE.

As for the denominations of the Notes, I do not see need for any change except that I think the re-introduction of the One-Rupee Note very necessary. I may go further and say I think it essential to the smooth working of the new scheme. I was one of those who first advocated the issue of the One-Rupee Note as one means of getting over the difficulties of getting sufficient silver during the war period. It was very strenuously opposed by so-called experts, and it was boldly asserted that the masses would never take them. These gentlemen were not aware that the masses did take such a Note all over the Far East. Unfortunately such opposition made Government hesitate till the position was almost desperate. Then, the One-Rupee Note was issued, and, as we know, was an immediate success, and did its little bit in tiding the country over the scarcity of silver. How was it

that the experts were so hopelessly wrong? It was because they argued from the analogy of bigger Notes. It was well-known that for crop-moving purposes it was rupees that the cultivator wanted, but it was not appreciated that he did it because the only Notes that would be offered were Rs. 5 or higher denominations, and he was sure to lose some money when he wanted to change such Notes in his village or market-town. His requirements called for a much smaller unit, and hence his refusal to take Notes. Here also lay the explanation of the success of the One-Rupee Note. I would refer the Commission to my Memorandum to the Babington-Smith Committee, where I have treated the subject more fully.

The Retrenchment Committee of 1922-23 recommended a withdrawal of this Note on the score of expense and there was also a feeling in various quarters that the material used as well as the size were such as involved considerable losses on the poorer classes owing to these Notes being either lost or torn or mutilated in passing from hand to hand or while carried on the person. These notes were consequently withdrawn. The reason why I consider a re-introduction of this Note necessary is this: A small currency unit like the rupee is the one most suited to the needs of the masses even to-day in view of their very small income and their extremely petty disbursements, and it will have to be provided to them, for years to come. I would do it by the coinage of a new rupee of the same fineness as the present English shilling, because our rupee is nothing more than an Indian shilling, but this would be opposed on the ground of debasement and of Gresham's Law by superficial critics, who do not understand that neither of these apply to a token which is circulating at much more than its intrinsic value. The only other way would be, to re-issue the One-Rupee Note and make the masses familiar with it, so that our whole system may not be jeopardized for want of silver, or of silver at the *right* price, in some future crisis like the World-War of 1914.

If such revision is undertaken, I would urge that the needs of the masses, for whom alone this Note would be destined, be more closely studied. A lot of energy and ingenuity has been wasted in the past in the beautifying of the design, and in making it up into coupon books, etc., etc. This shows that it was the needs and conveniences of the burrasahib that had received most attention. What the masses want is a piece of paper which stands all kinds of rough usage including wet, which shows very plainly its denomination by a simple big figure, and which is of a sufficient size not to be overlooked even when crumpled up. From the point of view of the masses, Notes of smaller and smaller sizes on which our Currency Department seems to waste its ingenuity are a serious error. The *size* has nothing to do with the *denomination*, and I urge a reversion to very near the size of the *old* Ten-Rupee Note even for the future One-Rupee Note.

Facilities for Encashment.

As for the facilities for encashment, those already existing appear adequate so far as Rs. 5 and higher denominations are concerned. If the One-Rupee Notes are again issued as I suggest, *the facility needed will be of encashment into small change.* In rural areas and even in fair sized towns, the money changer makes a charge for giving small change, and *if Government so organise things that small change is readily available without charge for only the One-Rupee Note,* I feel sure this Note will be immensely popular in all rural areas, while in urban areas it has already proved popular. In course of time, I expect this Note to take as important a place in all small transactions of daily life as the Unit-Note does in the Straits, China, Japan, and America, and now even in the United Kingdom, and coin will not be needed in the circulation and will remain in the Reserve.

The Backing to the Note Issue.

We shall now consider the question of the backing. The present position is roughly as follows:—

Total Note Issue.	*Backing.*	
Rs. 190·52 *crores*	*Crores.*	
	Rs.	
	90·09	Silver Coin and Bullion.
	57·11	Indian Securities.
	21·00	Sterling Securities.
	22·32	Gold Bullion.
	190·52	

(*N.*B.—The above figures are as they stood on 15-10-25).

The gold and sterling in the above are valued at Rs. 10 to the Sovereign or the £. These, if revalued at Rs. 15 to the Mohur, would show a much larger gold backing, and enable us to do away with some of the "ad hoc" securities now in the currency Reserve, and which really represent the gap caused by losses on Reverse Bills, etc., operations, and are not an inflation of currency against securities. The figure of 57·11 crores is made up as below :—

Rs.		
10 00	crores	in 3 per cent. and 3½ per cent. rupee paper at cost.
47·11	"	in Indian Treasury Bills for the nominal value of 49·65 crores.
57·11	"	

As I propose placing India on an effective Gold Standard, it is desirable that the gold or quasi-gold backing should form the largest part of the backing. Hence, on re-valuation of gold and sterling @ 15 to 1, the position will stand thus :—

Crores. *Rs.*	
90·09	silver coin and bullion.
31·50	equal to £21 million in sterling securities.
33·48	" " £22·32 in gold bullion.
10·00	Indian 3 per cent. and 3½ per cent. paper.
25·45	" Treasury Bills.
190·52	Total Note Issue.

I would next provide for the Indian Securities being further reduced to the total of Rs. 20 crores to which they are limited in the Paper Currency Act under its permanent provisions. This can be done by replacing Rs. 15·45 crores of Treasury Bills by £10·30 million of securities to be transferred from the Gold Standard Reserve, which now amounts to £40 millions. The position now will be :

	Crores.	
	90·09	Silver coin and bullion.
	20·00	Indian securities (of which 10 will be 3 per cent. and 3½ per cent. paper and 10 Treasury Bills).
80·43	33·48	£22·32 million in gold bullion.
	31·50	£21·00 million in sterling securities now in Paper Currency Reserve.
	15·45	£10·3 million in sterling securities transferred from the Gold Standard Reserve.
	190·52	Total circulation.

It will be seen that after the above readjustments, there will be about :

42½	per cent backing in	gold and gold securities.
47½	" "	silver coin and bullion.
10	" "	Indian securities.

This gives a far stronger position than many of the countries that are now back to the Gold Standard can claim to-day.

It will be noticed that I group gold and gold securities together and take silver apart. This is the only logical thing to do under an effective Gold Standard. Counting silver as a Reserve is meaningless. Holding a larger proportion of Indian securities is also not sound, as, in a crisis, you cannot turn them into gold to meet international liabilities. This part of the Reserve should, therefore, be limited to such a figure as is deemed safe, and I am inclined to think that while we are holding so much silver, which is useless for meeting gold liabilities, it will be wiser to keep Indian securites at Rs. 20 crores only.

The Gold Standard Reserve.

We have next to consider the position and uses of the Gold Standard Reserve. I have already indicated in the earlier part of this Memorandum my view that it is wrong to call this reserve "profits" and that it is really part of the backing to our Silver Notes (i.e., rupees) which are in circulation to-day along with the Paper Notes. There must be a very large amount of these Silver Notes in circulation.

Prof. Jevons in his work "The Future of Exchange" considers that in 1922 the circulation of silver coin was some 220 crores. This estimate is probably too low in view of the very heavy mintings between 1916 and 1920. Whatever the real figure may be, what we have to bear in mind is that these are all potential Notes that may one day turn up for encashment in gold if something happened to upset the mind of the public. It is to avoid this risk that I propose to leave discretion to Government to cash Notes in gold or silver or both. However, while such makeshifts have to be borne with in the early stages of the Gold Standard, the object should be to one day do away altogether with the use of rupees except as limited legal tender. Therefore, provision must be made for a Reserve of gold that could be resorted to for this particular purpose. I have already proposed a transfer from the Gold Standard Reserve of about £10 million to the Paper Currency Reserve. This will still leave us £30 million in hand, which gives

> A Reserve in gold securities of Rs. 45 crores against silver Notes outstanding of say Rs. 220 crores

or *a separate backing for these notes alone of about* $3\frac{1}{4}$ annas or over 20 per cent. in every rupee. My proposal is that when the new system is inaugurated the £30 million left in the Gold Standard Reserve be maintained as a separate reserve, and interest earnings of this reserve should be allowed to accumulate in it, while the interest earnings of the Paper Currency Reserve may be carried to Revenue as is now done, for at least the next ten years, by which time we shall be able to judge more accurately of the volume and effects of the Silver-Note circulation on our Gold Standard System. It will follow from what I have already said that this Reserve will have to be held in securities, and in England, but it should be with the Imperial Bank of India on behalf of the Government of India.

The Future Management of the Note Issue.

I would also recommend that the whole of the work of the Currency Department be handed over to the Imperial Bank of India, who will run it as a distinct Department just like the issue Department of the Bank of England. It will be the duty of this Issue Department.

(*a*) To issue local currency against gold tendered to it in India at the rate of one rupee for every 7·5334 grains of gold.

(*b*) To hold all gold so received as part of the Currency Reserve and in specie; none of this to be invested.

(*c*) To issue Notes against Mohurs or rupees.

(*d*) To issue gold against Notes tendered for *bona-fide* export purposes; the best index of this will be the decline of Indian Exchange to the Gold Export Point, *i.e.*, no gold will be given except at that point.

(*e*) To cash Notes presented for encashment for *internal* purposes in Gold or Rupees *or both* at its option.

N.B.—It will be seen that there will be no room for manipulation here. The Bank will only be carrying out definite instructions.

The Banking Department will go on doing its business on present lines. I would make it clear that in case the Note Issue is handed over to the Imperial Bank, it should not be permitted to do foreign exchange business, but should try and develop as the real Bankers' Bank, and should develop the real trade acceptance and a rediscount market in this country with a view to greater economy in the use of currency. I would beg to refer the Commission to pages 9 and 10 of my replies to the External Capital Committee, of which a copy is enclosed herewith, and where this matter has been treated in more detail, as any digression here may appear out of place.

Best Way to Make Silver Purchases.

If the Commission decide to recommend the establishment of a Gold Standard with a Gold Currency more or less on the lines outlined above, it will be at once seen that there will be no further coinage of Rupees, and so, no silver will have to be purchased. I need not, therefore, discuss existing methods of purchase of silver by Government except to remark that, even in the past, it would have been better to call for tenders for delivery in this country. Government used to argue that they would thus be playing into the hands of speculators in India, but this was a consequence of their own unbusinesslike methods. If they could have foreseen their requirements by only six to eight weeks, and called for

tenders for delivery eight weeks ahead, they could easily have brought the whole silver producing world, as well as a big consumer like China, into the competition, and cornering tactics by speculators would have had no chance whatsoever. Their mistake lay in postponing purchases until further delay was dangerous.

COUNCIL REMITTANCES.

I shall now come to the question of Council Remittances. The practice in the past has been most unbusinesslike, and Councils to lay down funds for meeting Home Charges have been hopelessly jumbled up with Sterling laid down for fresh Currency Issues. Disbursements for Home Charges as well as for, say, purchases of silver, were made from the same till. I have discussed this unbusinesslike system in my Memorandum to the Babington Smith Committee in detail, and would beg to refer the Committee to my remarks there.

As for the future, if the Currency Department is handed over to the Imperial Bank, and treated by it as a distinct Issue Department, the jumble of currency operations with Home Charges operations will automatically cease. The Home Charges will then alone have to be considered, and the remittances will simply mean that the Government of India has to lay down funds in London for goods or services bought by it, just as an importer might have to do for, say, Manchester goods. As the merchant would arrange his remittances to fit in with his receipts of proceeds from his customers here, so Government would also have to fit in its remittances with its receipts of Revenue and the amount out of it that could be spared for remittance Home. Just as a merchant covers his Exchange three or four months or even more forward, so should Government. At present the practice is to buy ready T. T. or (which is the same thing) sell ready Councils. The result is that very poor rates are obtainable in the so-called slack season May to October. However, as a matter of fact, a great deal of export business is booked just in this period by forward sales for shipment in November to April, and Exchange for this has to be covered. The present methods compel Banks to keep funds idle for a considerable time. If Government would agree to contract for forward deliveries, better rates would be obtainable by Government, and the trade could have a convenient cover available at all times, and Government would be able to have a considerable part of their remittance requirements covered at favourable rates. I am aware of the difficulty of Government having such forward contracts with individual banks or firms, and would recommend that all remittances be hereafter arranged through the Imperial Bank, subject, of course, to the control of the Finance Department as to the total commitment or the commitment for any one month, which would depend on Government's ways and means position as also on the dates on which the money is needed in London.

I also think that it will be advisable to lay down that *such remittances should not be allowed to exceed in any year the requirements of the Secretary of State for that year as indicated in the Budget.* There has been great laxity in this respect in the past, mainly due to the jumbling up of Currency operations with such remittances. I would further lay it down that such remittances should be at best rates, *but within the gold points.*

There is one phase of this problem that has a very close bearing on the Currency System. The authorities seem to hold to the theory that our Currency Reserves are meant to provide the Secretary of State with Funds whenever the Balance of Trade begins to go against India and Council Bills cannot be sold in the open market in the usual way. They seem to argue—" A merchant or banker could tender Notes to the Currency Department, and get gold for payments outside India. Why cannot Government do the same when it finds that it cannot sell its Bills even at the lower Gold Point " ? I submit that there is an important difference. The circumstances that bring about such adverse Balance of Trade mean poor trade, reduced profits, nay, even losses, and reduced finance for the merchant. These things automatically make him cancel or reduce his commitments abroad. They at the same time make him reduce his stocks here even at a sacrifice. *These forces acting on the whole body of the trade of the country tend to automatically set the Balance right.* A Government has no anxiety about losses in its operations, and it does not get pinched for finance as the merchant does, and so *the forces described above do not act on Government in a way to make it curtail its commitments.* Then, again, the amounts required are very big, and if the Reserves were allowed to be raided for this purpose, the whole Currency System would be put in danger. I think that the correct pro-

cedure in such circumstances is to curtail commitments, but as this may frequently be impossible, the right way to finance the operations is for the Secretary of State to borrow on six months or 12 months India Bills up to the amount necessary to make up the deficiency in the remittances, and leave trade breathing time to recover All past experience shows that India has always recovered in the very next season. I would urge the Commission to make very definite recommendations on this particular phase of the Home Charges operations, as, otherwise, there is danger of the Currency Reserves being raided by the Secretary of State, and the whole Gold Standard System being put in jeopardy. England to-day stands in the same position to America that India does to England, and while India's Currency Reserves were allowed to be raided between 1920 and 1924 for meeting India's payments in England, England's Currency Reserves were not only very carefully conserved, but were even very largely added to at great sacrifice. This is mentioned here in order to point out what sound Currency practice should be, in a year of an adverse Balance of Trade, in the case of a debtor country, as India and England both are to-day.

Seasonal Demands for Currency.

The greater part of the exports of India get concentrated into the period December to April, when the most important export crops happen to be marketed. In pre-war days there was a recurring stringency at this period, because Revenue collections were also heaviest in the same period, and under the pre-war system, the bulk of this money was kept in Reserve Treasuries, and beyond the reach of the money market, until it could be released by purchases of Council Bills. This has been all changed since 1920, when the bulk of Government funds began to be placed with the Imperial Bank. The following figures will make my meaning clearer.

Treasury Balances in India.

In the Three Presidency Banks.

	Dec.	Jan.	Feb.	March	April	May
1913–14 - -	2·59	2·60	2·44	2·54	2·33	2·28
1923–24 - -	8·52	16·99	22·63	26·94	19·82	20·53

In the Government Treasuries.

	Dec.	Jan.	Feb.	March	April	May
1913–14 - -	18·99	15·58	18·40	19·15	21·07	19·18
1923–24 - -	3·12	3·21	3·13	4·21	3·16	2·91

These figures are taken from the Reports of the Controller of Currency. It will be seen that in pre-war days anything from 15 to 21 crores were drawn away from the market and locked up by Government at the busiest time of the year. Now it is all changed.

The average individual in the commercial community does not appreciate how great a difference this change of system must make to the money market. He has a vague impression that such stringency used to be felt even in pre-war days, and this mistaken general impression has been taken advantage of by Government to divert attention from the policy of deflation that they were pursuing for the last five years by making out that such stringency during the busy season was nothing uncommon in India. It will now be seen how misleading this argument is.

To understand the real source of the trouble, we have to see how, where, and when, the money is wanted. The first stage is from the field to the market. This is almost entirely looked after by indigenous financing agencies. The next stage is from the up-country market to the exporting point. This is financed by funds remitted from the ports to the interior by the export houses. The last stage is the actual export and its finance by the Exchange Banks. For this purpose, the Exchange Banks lay down funds in India, by sale of Sterling or of gold to the Secretary of State, and the money for that part of it in excess of Home Charges has to come from the Currency Department. The money laid down by the Exchange Banks passes on to the Exporters, and through them to the up-country markets (the second stage) and from those markets to the producer. Therefore, if the Currency door was not shut as it now is, there would be no serious stringency even when exports were very heavy, as the Exchange Banks can easily take care of it all by laying down funds here to the extent of the Export Bills purchased by them.

WHEN IS EMERGENCY CURRENCY REALLY NEEDED?

With the Currency door open, i.e., *with an automatic system, there can, therefore, be no serious stringency so long as the foreign demand for our products remains good.* If for some reason this falls off, i.e., if there is a serious trade depression all over the world and India's products are not wanted, then and then alone will there be any serious stringency, because in such cases Exchange Banks cannot lay down in India all the funds that may be needed to carry its unsold products till such time as the world is ready to take them freely once more.

It is in this second case that special financial facilities would have to be provided, and it is then alone that recourse will be necessary to the issues of Emergency Currency, provided of course that we are again on an automatic Gold Standard.

The strain of this kind of finance will be made lighter if a really free discount market is developed in this country, because, then, 60 days' sight bills based on produce will become a favourite form for the temporary investments of funds by bankers all over the country. In the term Bankers, I of course include the very large number of indigenous financing agencies, *e.g.*, marwari shroffs, chetties, &c.

As to the amount that could be made available it should not be a rigid figure, as is now the case, but a percentage of the figure of the total Note Issue, as it may have stood on the 31st March of the previous year. By this means a reasonable relation will be established between the total needs of the community in the matter of currency and the extra assistance it may hope for, in times of serious stress.

WHAT KINDS OF BILLS SHOULD BE MADE ELIGIBLE?

There is no danger to be apprehended in such advances, because, if it is the right kind of bills that are discounted under these provisions, *i.e.*, those based on produce or manufactures at some stage between the field and the market, they will be self-liquidating.

What I am suggesting here is more or less on the lines of the Federal Reserve Act of the United States. In Section 13 of that Act, there is the following provision:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace. ....

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values."

DIFFERENT TREATMENT REQUIRED FOR A BANKING CRISIS.

There is another kind of crisis which may need such issues, such as the failure of the Alliance Bank of Simla. In such crisis, people get panicky, and draw away their funds, and hoard them. But this is always very temporary, and as soon as people get over their fright, money comes back to the usual market channels. The Emergency Issue above described does not seem to me to be the right method of

dealing with it, because *there is always a possibility that a trade crisis and a banking crisis of this kind may come simultaneously.* For this situation, a remedy somewhat analogous to the suspension of the charter of the Bank of England is more suitable. I would, therefore, provide for a special issue up to a maximum of 5 crores being made on the orders of the Governor-General-in-Council whenever he is satisfied on information submitted to him that the situation calls for such an extraordinary step.

The two issues are different in their nature and object. The first is to finance, produce or manufactured goods when it is temporarily impossible to find a market for the same. The rate of interest in this kind of issue should be moderate, because the burden of it ultimately falls on the producer, and he will be already hard enough hit by the depression of prices that is a feature of all such periods. The second is to tide over a period when credit and confidence have been *momentarily* destroyed, and people are actuated more by impulse than by reason. Such periods are always very short in their duration, but they call for the exercise of great courage and great initiative on the part of the central financing authorities. Help must be given, and freely given, at such critical moments to all who are sound, and even to many who are of doubtful standing, so that what had begun (to speak in military parlance), as the defeat of a particular battalion, might not degenerate into the rout of a whole army, and spread widespread disaster. At the same time, one has to see that no undue advantage is taken of such extraordinary financial assistance, and consequently the rate of interest charged to all who need assistance should be sufficiently high to ensure that this extraordinary issue does not stand out a single day longer than is absolutely necessary. I feel sure that the help so extended to them will be cordially appreciated by all concerned and the price cheerfully paid.

Summary of my Proposed Modifications.

This is all I have to say as to the modifications of the present system and practice that I consider necessary. I will now summarise them for ready reference:—

1. The Gold Exchange Standard System should be given up, because it is so very liable to manipulation, and an effective Gold Standard adopted. (When I drafted my Memorandum for the Babington-Smith Committee I was in favour of the Gold Exchange Standard, as I never dreamt that men with British traditions as to a sound currency would ever tamper with the standard, but I have been sadly disillusioned.)

2. There should be Gold Currency in circulation, so that the people of this country may come to understand what their real standard was, and manipulation may thereby be rendered far less easy than it now is, if it is not made altogether impossible.

3. The Mint should be opened to coinage of gold.

4. The coin so minted should be the Gold Mohur of 1918, though the sovereign may also be made unlimited legal tender.

5. No further Rupees are to be coined, but the present existing Rupees to remain unlimited legal tender, and to bear the same relation to the Mohur as in 1918, *i.e.*, 15 to 1, as any other ratio vitiates all past contracts made in terms of Rupees.

6. Local Currency should be issued only against tender of Gold in India to the issuing authority at the rate of Rupee 1 for each 7·5334 grains of gold tendered.

7. Gold should be freely issued to all who tender local currency and ask for gold, but it should be issued only for *bona-fide* export purposes, and at the Gold Export Point only. *As there will be a large amount of sterling securities in the Reserve this portion of it should be used up first.*

8. Encashment of Notes for internal purposes to be in Gold, or Silver Rupees, or both at the option of the Issuing authority. (This is the position as it obtained in the pre-war period. I am obliged to agree to its continuance for the present in view of the enormous amount of Rupees that must be now outstanding.)

9. The re-issuing of the One-Rupee Note should be considered, but if re-issued, it should be of a much bigger size, and in other ways should conform to the needs of the masses and not of the classes.

10. Present facilities for encashment are adequate, but special facilities for encashment of the One-Rupee Note into small change should be created.

11. As for the backing of the Note Issue, the ultimate aim should be—

(a) 20 crores of Indian Government Securities.
(b) Silver Rupees so long as they have to be held.
(c) Gold.

It is not possible for the present to lay down definite percentages for silver and for gold. It is also necessary for the present to include sterling securities as part of the holding of gold. *The practice should be to pay out sterling when gold is called for against Notes tendered, and on the other hand to issue fresh currency only against gold.* This will gradually, in the course of some years, enable gold to be substituted for the whole of the sterling securities in the Reserve. While the backing here indicated may appear unnecessarily high, it is on the lines of that of the Bank of England, but, with this most important difference, that India has to maintain a sufficient backing not only for its Notes printed on *paper*, but also for those other Notes printed on *silver*, and of which the volume is a good deal larger than that of the Paper Notes.

12. The Gold Standard Reserve, after the transfer of a part of it to the Paper Currency Reserve as proposed by me, should be continued as a separate reserve as at present, and the interest earned on it, should be allowed to be accumulated therein. The Reserve will serve as a backing to the Silver Notes (i.e., Rupees) now in circulation. It will also in due course facilitate the conversion of these Rupees into gold if, at some future date, this appears practicable.

13. The silver Half-Rupee should hereafter be legal tender up to Rs. 10 only.

14. All subsidiary coinage below Re. 1, if it is to be of silver, should be of same fineness as the present English shilling.

15. The Note Issue should be handed over to the Imperial Bank of India, to be run as a separate Issue Department as in England, and its duties in this regard should be clearly laid down by law.

16. If the Note Issue is so transferred, the Imperial Bank should not be allowed to do any foreign exchange business on its own account.

17. The remittance operations of Government should also be carried out through the Agency of the Imperial Bank, the Finance Department continuing to control the amounts and the dates of remittance, and *regard should also be had to the dates when the money would really be wanted by the Secretary of State.*

18. Such remittances should not exceed the amount indicated in the year's Budget in the ways-and-means programme of the Secretary of State and *should be made within the Gold Points.*

19. The covering of Exchange for forward deliveries against such remittances should be considered.

20. The erroneous idea that the Currency Reserves are for placing the Secretary of State in funds whenever Councils cannot be sold within Gold Points should be given up, and the Secretary of State should meet the deficiency in his remittances by cancelling or postponing commitments whenever practicable, and making up the balance, for the time being, by short-term borrowing in London.

21. The idea that the stringency felt in the busy season in 1924, was of the same kind as that felt in pre-war days is erroneous, because the latter was due to the locking up of enormous sums in the Reserve Treasuries. The stringency felt in recent years was really due to the Currency door being practically closed to Gold, and if this is again opened, Exchange Banks will be able to lay down all the funds needed for financing of our exports.

22. The Emergency Issue would be only needed for financing Indian produce when for some reason the foreign demand for it was poor, and the produce had to be carried for a considerable time. Such issue should not be a rigid figure such as 12 crores as is the case now, but 10 per cent. of the actual Note Issue on 31st March of the previous year.

23. There should also be provision for extraordinary powers being given to the Governor-General-in-Council to direct the issue of Currency to an amount not exceeding 5 crores to meet the situation that may be created by a money market panic.

24. The rate of interest on the Currency issued as per Clause 22 should be moderate, while for that under Clause 23 it should be a penal rate to assure the automatic return of such funds the moment the panic was over.

I believe this Memorandum so far answers all the points indicated in the Note issued to intending witnesses by the Secretary as far as the system and practice and the modifications of same are concerned. There are some further questions that I shall try and answer as briefly as possible.

One question is whether the time for a solution of this problem is ripe. My reply is that for the past two years India has been even more ripe for a reversion to the Gold Standard than any of the Dominions or even England, as it is perhaps the only country after America whose balance of trade has given it command of very large amounts of gold.

Another question is—What is the comparative importance of stability in internal prices and in foreign exchanges? My reply is that to try to maintain stability in internal prices by manipulating Currency is a delusion as otherwise England would have been only too glad to try it these past five years. The only thing that can be aimed at is to see that the prices of the various commodities in India are not maintained at a higher level, other things being equal, than is justified by the prices of similar commodities in other countries, so that the consumer in this country may not suffer in comparison with the consumer in other countries. An effective Gold Standard is the best means of achieving this, as commodities tend to flow out, and gold to flow in, into countries where prices are relatively low and *vice versa*. Manipulation of Currency and raising of its exchange value does not really cheapen prices. Prices expressed in terms of gold remain what they were. The manipulation merely surreptitiously raises the amount of all fixed wages and salaries as also of all other fixed payments as expressed in terms of gold. As for stability in foreign exchanges, this is only a convenience to merchants and bankers, but this also is best achieved by an effective Gold Standard, as it immediately makes Indian Exchange stable with every other Gold Standard country.

Another question is—What are the effects of a rising and falling rupee and of high or low rupee on trade and industry including agriculture and on national finance? This question begs the whole issue, because the implication is that a consideration of such effects justifies a tampering with the standard measure of value of a country. I consider that nothing can justify tampering with currency, as it amounts to a fraud on one section of the community to the benefit of the other, and no honest man can ever condone a fraud, however great the need of the party that committed it. However, if the Commission wishes to see what I have to say on this subject, I would beg to refer them to my book "Exchange Fallacies Exposed," pages 27-40, 55-56 and 59-85.

Yet another question is—when should any decision to stabilise take effect? I do not propose mere stabilisation but a return to the Gold Standard, and the recommendation should be, first, that India should return to it, and next that it should be achieved by such steps as will prevent any sudden upsetting of markets.

The next question is—If the rate selected differs very materially from the present rate, how should transition be achieved? My reply would be that any change up or down from a given rate must cause a certain amount of inconvenience and loss to a section of the community, but such a consideration should not be allowed to stand in the way of doing the right thing. The present rate differs very materially from what it was early last year, and, so far as I am aware, no compunction was felt by the authorities at the screwing up of Exchange. Certain interests were very heavily hit during the past year and a half, and are still being hit by the rate remaining where it is. Other interests will, no doubt, be hit if we go back to 16*d*. gold, but if they are so hit, it is the authorities themselves that will be most to blame, because they deliberately let slip more than one opportunity of reverting to the pre-war ratio during 1923 and 1924, and, in fact, up to September, 1924.

However, I am unable to see that there can be any important interests that will be seriously hit. The question of the rate has been on the anvil for at least 18

months past, and no merchant or banker can claim that he has been taken unawares. To put it in the words of Sir Malcolm Hailey—

> "Ordinary commercial prudence should lead all such merchants and bankers to cover their exchange. Common commercial morality should at all events prevent those who desire to dishonour their contracts from pleading so unsubstantial an excuse as the failure of Government to make its policy good."

These words were used in 1921 in the Budget Speech. In those days there was at least a definite policy, not only publicly declared, but embodied in the Statute Book. In the present case, no policy of establishing the 1*s*. 6*d*. rate has been declared from any authoritative quarters, so far as I am aware. If anything, official utterances have been in the contrary direction.

The only interests that can be conceivably hit are the import trade, and they can only be hit by a reversion to 16*d*. gold in so far as they have failed to cover exchange in respect of their purchases from foreign countries. If there are any such, they have to-day absolutely no excuse for remaining uncovered, because forward exchange has been very freely obtainable to-day right up to May-June next year.

As to how a return to 16*d*. gold can be most smoothly achieved, it can be done the same way as we came up to 18*d*. The latter was achieved by starving the country of currency. The former may similarly be achieved by reversing this policy and allowing the country to get all the fresh supplies of currency it may need by tender of gold. The trade balance is still heavily in favour of this country, and it will tend to act as a buffer against a too rapid decline. Government should do as follows:—

1. Declare its policy to be a return to Rs. 15 to the sovereign by gradual stages.
2. Offer to buy sovereigns or gold bullion for unlimited amounts @ 1*s*. $6\frac{3}{16}$*d*. gold per rupee (this is the actual policy at present but for sterling and not for gold). The effect of this will be to prevent the rate going above 1*s*. $6\frac{3}{16}$*d*. gold.
3. Offer to buy gold up to say £1 million a week by tender at best rates.
4. $\frac{1}{8}$*d*. above the maximum of such tender should be the next limit for unlimited purchases with the proviso that this limit will in no case be allowed to exceed 1*s*. $6\frac{3}{16}$*d*. gold.

All these purchases of gold should be on account of the Currency Department, and not on account of the Remittances to the Secretary of State, as it is the automatic inflow of currency to the extent of the needs of the market that will effect the transition most smoothly. Incidentally, such purchases will provide a welcome addition to our stocks of gold coin and bullion in the reserves, and thereby provide a still stronger foundation for a return to an effective Gold Standard as proposed by me in this memorandum.

APPENDIX 18.

Supplementary Note, submitted by Mr. B. F. Madon, of Bombay.

In the course of my oral evidence on Tuesday, the 8th December, 1925, I said, in reply to a question from, I believe, Sir Reginald Mant, that I did not accept the Quantity Theory of money at all. I noticed that several members of the Commission were taken aback at this statement, and I am afraid it will be considered a very rash statement on my part. I can understand the Commission not wishing to take up its valuable time in a discussion of this Theory, and would, therefore, be glad to have it go on record that I consider the fundamental proposition of this Theory that expansion of money or money instruments comes first and the rise of prices afterwards is contrary to all the known facts, and to the experience of all merchants who deal in commodities on a large scale. The following remarks of John Stuart Mill in this connexion are as pertinent to-day as in his time:—

> "Not only has this fixed idea of the currency as the prime agent in the fluctuations of price made the adherents of the Quantity Theory shut their eyes to the multitude of circumstances which, by influencing the expectations of supply, are the true causes of almost all speculations and

of almost all fluctuations of price; but in order to bring about the chronological agreement required by their theory, between the variations of bank issues and those of prices, they have played such fantastic tricks with facts and dates as would be thought incredible, if an eminent practical authority had not taken the trouble of meeting them, on the ground of mere history, with an elaborate exposure. I refer, as all conversant with the subject must be aware, to Mr. Tooke's 'History of Prices.' The result of Mr. Tooke's investigations was thus stated by himself, in his examination before the Commons Committee on the Bank Charter question in 1832; and the evidences of it stand recorded in his book: 'In point of fact, and historically, as far as my researches have gone, in every signal instance of a rise or fall of prices, the rise or fall has preceded, and, therefore, could not be the effect of an enlargement or contraction of the bank circulation.'"

I may add that an investigation of price movements during the last 10 years will show that the conclusion that Tooke arrived at in 1832 will hold equally true of this recent period of big price fluctuations. Therefore, what the Quantity Theorists put forward is almost like arguing that the son begot the father. A second maxim derived from the same Theory is equally untrue. It would ask us to believe that a 10 per cent. addition to the supply of money or a 10 per cent. subtraction from the supply of goods would result in a 10 per cent. variation in prices. All wholesale merchants know that this is absurd. A 10 per cent. addition to the supply of sugar has reduced its price by some 60 per cent., and of cotton by some 30 per cent. this year. Again, a 10 or 15 per cent. shortage of supplies has resulted in a rise of some 90 per cent. in jute and of as much as 400 per cent. in rubber in the past 12 months. When a Theory is so contrary to all the facts, the Commission will understand why I so emphatically reject it. I want these remarks to go on record, because it is to a blind reliance on this Theory that is largely to be attributed all the recent manipulations of currency with the object of control of prices that we have noticed in so many countries, including India, in the past few years, and which result in what is tantamount to a fraud on large sections of producers, and particularly on the most helpless and most voiceless of them.

Another thing I would wish to put on record is this. Sir Henry Strakosch mentioned the resolutions of the Genoa Conference *re* the desirability of a Gold Standard, and of the Central Banks of various countries having a common policy with a view to credit control. I then said that I could not recall exactly what it was, but agreed that the recommendations as then put before me were sound. I have since had a look at the original resolutions, and would like to record my reservation as to the desirability therein indicated of controlling credit not only with a view to maintenance of the currencies at par, but also with a view to prevent undue fluctuations in the purchasing power of gold. My view is that the present methods of measuring such purchasing power are altogether too empirical, and it is dangerous to take action on conclusions as to the value of gold arrived at by such methods, and to try to control prices of commodities, because that is what it finally amounts to. I also dissent from the recommendation [Resolution 11 (4)] that Central Banks should buy and sell Exchange on other participating countries in exchange for their own currencies, as I consider this liable to very serious abuse and very serious risks also.

The next remarks I would like to offer are as to the so-called hoarding in India. I have already explained to the Commission that it is not hoarding as understood in the West, but only the storing up of values for a rainy day. I have further explained that it is in this form, because of conditions of the female sex in Indian and particularly in Hindoo society, and because of the illiteracy of 92 per cent. of the total population. The Chairman had been good enough to find these explanations of mine rather illuminating, but, to European-trained minds, the explanation I gave may still appear inadequate, and they might still wonder why a good deal of it cannot be deposited with Banks. It may, therefore, interest the Commission if I point out that there are in India

2,316 towns,

685,665 villages.

For the supply of Western Banking facilities to all these we have—

The Imperial Bank and its branches,

Banks registered in India and branches,

Exchange Banks and their branches.

As these Banks naturally select large centres of population or of trade, it will, I believe, be found that almost every one of the other Banks will have its office in the same town as the Imperial Bank. In fact, Banks as understood in the West exist to-day in India in only about 250 out of the 2,316 towns, let alone the villages. If I further point out that out of these 2,316 as many as 738 towns can claim a population of 10,000 or more, the backwardness of India in the matter of Western banking facilities will become even more striking.

That does not mean that all the rest—some 2,100 towns and some 700,000 villages have no banking facilities. They have their indigenous banker, but he does not operate cheques. It is all cash paid in or paid out. The Commission will now perhaps be able to see that all this vast area must require a vast amount of currency to carry on its operations, because this Currency has to do for all this vast area the same work that the cheque does in England. The impression is abroad in certain circles that there is too much currency in India. The above facts will, I hope, at least show the Commission that India in this matter, as in many others, has to be judged by different standards, and conclusions drawn from experience of Banking conditions in the West are likely to be highly erroneous.

The use of Currency instead of the Cheque is not confined to the non-bank areas alone. It is notorious that in indigenous commercial circles, even in the big cities where banking facilities are adequate, a vast amount of business is carried on by means of Currency, not Cheques. This may partly be due to conservatism, but I am inclined to think it is due to no small extent to the stamp duty on cheques. Here, again, the mistake is made of judging this country by Western standards. We are told an anna (a penny) is nothing; it cannot stand in the way of a free use of cheques. These gentlemen forget that in rich England the 2d. stamp on cheques is widely resented, and the Associated Chambers of Commerce of Great Britain are making the reduction of this duty to 1*d.* a part of their programme.

The penny in England will buy hardly anything to-day. An anna in India will buy in many areas a substantial quantity of commodities.

Then, again, if A gives a cheque to B of Rs. 10,000, and B has to pay this out again to five different persons, C, D, E, F, G, by five cheques, A pays one anna and B pays five annas on the same 10,000. The indigenous Banker does not see any sense in paying such a tax. He prefers to get it in 100 notes of 100 rupees each and pays them out to C, D, E, F, G, and has no stamp on cheques to pay. In effect, therefore, the Currency Notes operate as a Government cheque that passes from hand to hand many times over, and saves the stamp every time.

In England they grudge even 2d., and in the enormously rich United States they have no duty at all. I urge that the case is far stronger for the abolition of this duty in such an extremely poor country as India is to-day. The fact that this duty is now provincial revenue is advanced by Government as a valid reason for doing nothing. I submit that the much wider use of the cheque is a most important currency question, that it has a most important bearing on the Reserves the country must hold, and that the loss to the Provinces could rightly be made up from the profits on investments in the Currency Reserves.

The above remarks about the Currency Note really acting as a Cheque passing from hand to hand in over 2,000 towns and in some 700,000 villages should also indicate that the time has arrived when even Notes of higher denominations than Rs. 100 may safely be made universal.

There is another matter in my oral evidence that I should like to see cleared up. In reply to a question from the Chair whether prices had been adjusted to the 18*d.* rate now prevailing, I believe, my reply was that they must get adjusted every moment, as most of India's commodities were exported to a larger or smaller extent, and the prices of all such commodities had, therefore, to get immediately adjusted to the rate then prevailing. What I want to now make clear is that this adjustment that I spoke of only refers to prices of articles for Export that come to the various markets, and that prices in the widest sense, that is, prices of such articles as do not figure in the Exports, and the prices of labour, and of transport and other services, are not so easily or readily adjusted, and have in a great many cases, as a matter of fact, not been yet adjusted at all. Thus there has not yet been any readjustment of Government services, or of the railway or other services, nor has there been any adjustment of the prices of labour whether industrial or agricultural, and it can only come about after long and bitter struggles.

In the course of my examination on the 8th instant, Sir Henry Strakosch seemed to have some doubts about the self-liquidating nature of the Trade Bills that I advocate as the only kind of Bills that should be eligible for Emergency Currency Issues. I would, therefore, like to quote the recommendation of Drs. Kemmerer and Vissering to the South African Government in their Report early this year recommending an immediate reversion to the Gold Standard. In para. 49 (2) of this Report they say :

> " The present campaign to further the wider use of Trade Acceptances in lieu of open accounts should be encouraged and that to this end, it is desirable that
>
> " (a) Merchants should give preferential terms to purchasers who are willing to accept such bills in lieu of obtaining credit on open accounts, that
>
> " (b) Commercial Banks should give rates that are more preferential than those now prevailing to merchants who obtain their advances from the banks by discounting such bills as compared with merchants who borrow from the banks on current account, viz., overdrafts or one-name P/Notes, and that
>
> " (c) The Reserve Bank give substantially preferential discount and rediscount rates on trade acceptances."

If a discount market on these lines was developed in normal times, then, in times of a world trade depression, it is the excess of such bills over their normal volume that will overflow into the Currency Department, and they will be absolutely self-liquidating, if properly operated, and the Emergency issue will automatically run down to zero as soon as there was no excess. I do not, therefore, have the apprehension that Sir Henry Strakosch seemed to have in mind that such Bills will be used speculatively in order to carry produce for eight months or a year. The Bankers who have put their endorsements on such bills will insist on their Clients retiring them, and in any case will retire them themselves on due date. This is not the case with the present system of " manufactured " Bills, and, if for nothing else, then at least for this reason, the development of a discount market in this country on the lines suggested by Drs. Kemmerer and Vissering is highly desirable in the interests of a sound currency policy.

There is another point in my examination by Sir Henry Strakosch, about which I would supplement my replies to him by a few words here. He seemed to have very great apprehensions about the day ten or fifteen years hence when we make up our minds to go to what is called a full-fledged gold standard, and have, according to him, to offer to convert all the rupees then in existence into gold. I do not share his apprehensions, because

1. No such offer need be even then made if the limit of legal tender of the rupees is fixed at 500 or 1,000 rupees, and thus the hoards of the small man are safeguarded against any depreciation of their purchasing power

2. Nor do I propose that any such offer should be made until our holding of gold is sufficiently strong; and lastly

3. I do not apprehend that any large part of the rupees then in existence will ever come back for conversion, because this rupee—the shilling of India—will be even more wanted in this very poor country of very small individual payments than the British shilling is in the United Kingdom.

However, if these apprehensions also find any weight with the other Members of the Commission, then I withdraw my recommendation for a One-Rupee Note. This will ensure that all payments under Rupees 5 will have to be necessarily made in the silver rupee and absolutely compel its retention in circulation, and it cannot come back for conversion into gold—at least a very large part of it cannot come back—in this country of three hundred and twenty millions.

However, in order to satisfy this Commission that they need not have any fears on this score, I tried to procure the figures of the total nominal value of silver subsidiary coinage now in existence in England. I am sorry to say I was given to understand that such information was not available in this country even in official quarters. I must, therefore, content myself for want of more up-to-date information, with certain figures put forward by Sir Robert Giffen before the Fowler Committee as far back as 1898. In his evidence before that Committee Sir Robert Giffen quoted certain figures of such circulation on the authority of a Report made

by Mr. Roosevelt to the United States Government some years earlier. I do not know the date to which the figures in that Report had been brought up, but think it will be safe to take them as relating to the end of the year 1896, because it was about that time that the fight of the two standards—Bryan and the Democrats wanting a Silver Standard, and McKinley and the Republicans wanting a Gold Standard—ultimately resulted in the final victory of the Gold Standard in the United States. Assuming that 1896 was the year Mr. Roosevelt reported for, there was silver subsidiary coin in circulation in the United Kingdom in that year of as much as

£22 million.

The *nett* additions, year by year, since then, were according to the Report for 1923 of the Controller of the Royal Mint as follows:

	£
1897	383,500
1898	370,603
1899	369,301
1900	592,900
1901	111,160
1902	—142,080
1903	—133,000
1904	—437,088
1905	—213,000
1906	182,084
1907	178,625
1908	161,267
1909	—62,491
1910	589,752
1911	672,091
1912	1,253,938
1913	982,284
1914	5,640,444
1915	7,096,151
1916	7,312,096
1917	2,777,782
1918	7,913,940
1919	3,211,950
1920	1,340,800
1921	—722,369
1922	—4,503,575
1923	—5,557,700
	29,369,365

The above figures are from page 63 of the Report.

We thus find that

1. There was already in existence at the end of 1896 subsidiary silver coin of a total nominal value of ...	£22	million
2. There was between that year and end of 1923 a further nett addition of about	£29½	„
Total apparently now in existence	£51½	million

I had wired to a friend in England to get me the figure of the present silver circulation from His Majesty's Mint, and he reports that the Mint estimates it at between £50 and 60 millions. However, to avoid exaggeration I will take my own figure of £51½ million arrived at as above. This sum reduced to terms of shillings gives us

a total circulation of 1,050 million or say 105 crores shillings in the United Kingdom to-day.

The population of the United Kingdom including both Northern and Southern Ireland was reported to be under 47 million in 1921, so that it will be at once seen that the Subsidiary Silver circulation was as much as

over 22 shillings per head.

It is also to be noticed from the Mint Report that the Silver Coin held by Banks was between £6 and 7 million in the 5 years before the War, while to-day it is as much as £14 to 17 millions. This means that the payment of wages makes much bigger calls to-day for such money, and the Banks are obliged to hold much larger amounts to-day in order to be able to meet the needs of their clients. It is important to bear this in mind, because wages and salaries in this country have also gone 70 to 80 per cent. above pre-war level.

In order to test the English figure of 22 shillings, I tried to get figures for other countries. Through the kindness of Dr. B. M. Anderson, of the Chase National Bank of New York, I have obtained the following figures of subsidiary Silver circulation :—

	$
Paper Money $1 denomination chiefly Silver Certificates ...	429,621,000
Silver Dollars	54,685,000
Silver Coin of less than $1	272,217,000
	756,523,000
Copper and Nickel Coin outstanding of which part undoubtedly lost or destroyed	106,000,000
	$862,523,000

Distributed over a population of 110 million people this gives

28*s.* per head without Copper and Nickel
32*s.* ,, ,, including the Copper and Nickel.

I also find that in Germany when it went over to the Gold Standard, the Subsidiary Silver was as much as 10 Marks, say 10 Shillings per head, and it was found necessary to increase it to 12 Marks, say 12*s.* per head so early as 1880. I cannot get later figures, but the above corroborates the figure of 11*s.* for England in 1896. According to the Report of His Majesty's Mint for 1923 there was $3.06, say 12*s.* 7*d.*, per head of subsidiary silver in Canada and 14*s.* 3*d.* in Australia. In both of these Dominions the average level of wages is much higher than in the United Kingdom.

Let us now apply the above data to the case of India. India is a country of 320 million people, and, in this country, not only the petty payments of retail trade, but many other kinds of payment have to be made in silver, because the population is poor, because average earnings are only a few pence a day, and because the cheque is not known in the whole of the rural areas and inasmuch as 90 per cent. of the urban area. If we leave aside the case of the United States and make only the same allowance per head of population in India as in England, *i.e.*, 22*s.* per head, it would call for

704 crores Shillings,

or, putting it in terms of Indian money at 1*s.* 4*d.* to the Rupee, India should have under even a Gold Standard a subsidiary silver circulation of as much as

528 crores of rupees.

If our actual circulation of Silver money (fractional coin inclusive) is less than this figure—if it is only about Rs. 300 crores as would appear to be the case from certain authoritative estimates—then it is easy to see that it is by no means too large for the needs of our present population. Again, the case of England teaches us that such silver circulation must increase both absolutely and also per head. It is, therefore, not at all extravagant to say that even if there is any excess to-day, it will be all absorbed in the next few years, and the amount now in existence may even prove inadequate for the growing needs of a larger and more industrialised population 15 or 20 years hence.

Therefore, if the purchasing power of the rupee is not destroyed by absolutely demonetising it, and if this purchasing power is safeguarded by allowing the Rupee to remain legal tender up to at least Rs. 500, then the above remarks will show that we need have no apprehensions about any of these rupees coming back for conversion, nor need we offer any such conversion. Our case is very similar to that of America in 1896 when it finally voted for the gold standard. They left the Silver Dollar full and unlimited legal tender, and I consider that the same thing, if done here will suffice. I may add that even Germany had to continue the Thaler—a silver coin—as full and unlimited legal tender till about 1908, although it adopted the Gold Standard in 1873. This is merely to show

that it is not at all necessary to put any limit to the legal tender quality of the existing Rupees if India adopts the Gold Standard to-morrow. Any such action may wait without any disparagement to the Gold Standard whatsoever. Nor is it at all necessary to offer conversion of the silver that may be in circulation into gold. America did not make any such offer, nor did England when it made the shilling limited legal tender a hundred and fifty years ago.

It was Currency unwisdom in the past that saddled India with the huge amount of token currency, against which Sir James Begbie, a Member of the Chamberlain Commission, had recorded his most emphatic protest. It will be, I submit, adding insult to injury if India is to be told to-day that it cannot have a Gold Standard unless it provides for conversion of the bulk of its present silver circulation into gold, and, as a necessary corollary, agrees to enslave itself economically to England or America to the tune of another £80 or £100 million.

If the apprehensions that Sir Henry Strakosch seemed to have in mind still weigh on the minds of this Commission after the above examples of the silver circulation in England, the United States, etc., and if they still consider that conversion may have to be offered 15-20 years hence when the Rupee is made limited legal tender, then, may I be permitted to point out that fixing the rupee at any higher ratio than 16*d.* unnecessarily and heavily increases our gold liabilities under the Gold Standard in the matter of conversion of this silver token Currency as well as all other token Currency, and that this should be a further powerful argument for going back to 16*d.*

This reminds me of a further remark about the Ratio that I might be permitted to make here. Devaluation of currencies, *i.e.*, reduction of the gold value of the Standard Unit, has been known for centuries, and we have seen instances of it in the last five years. Put in plain English it means nothing more than this: That an insolvent country is not able to pay its creditors—the holders of its paper—full 20 shillings in the £, and compels them to accept less. Such a thing is fairly common in the case of both insolvent individuals and insolvent nations.

The opposite of devaluation is so unknown in Economic History that there is not even a recognised term for it. The " Statist " calls it plus-valuation, and says India is the only instance since the War of such a thing as plus-valuation. This word may look harmless, but, in plain English, it means nothing more nor less than that India is the only country that has deliberately arranged to pay its creditors—the holders of its paper—more than they were entitled to. This is a thing absolutely unheard of, either among individuals or among nations. And, this would be done by the British Government, who claim to be the Trustees of India.

There is another consideration that I hope the Commission will also bear in mind when framing their final recommendations. If it is right to change the Standard Ratio to-day from 16*d.* to 18*d.* to suit the purposes of the present Government, it will be considered an unimpeachable precedent by some future Government for once more changing it from 18*d.* to 12*d.* or 8*d.* if it suited their purposes. Any change now recommended will stand as such a precedent for the future.

APPENDIX 19.

Statement of evidence submitted by Mr. C. N. Vakil, M.A., M.Sc. (Econ.), F.S.S., Professor in the School of Economics and Sociology, University of Bombay.

A Gold Standard and Gold Currency for India.

The Pre-War System.

The pre-war system of currency and exchange in India has been known as the Gold Exchange Standard System.

Under this system, the legal tender currency consisted of rupees, rupee notes, sovereigns and half-sovereigns.

The Government had the monopoly of coining rupees at their discretion; notes were issued against a certain reserve, a fixed part of which consisted of securities and the rest of coin or bullion; sovereigns and half-sovereigns were not coined in India, but could be imported.

Relation of the rupee with the sovereign.—Government was willing to give 15 rupees for a sovereign or gold of equivalent value, but was not bound to give a sovereign for the same number of rupees.

The Gold Exchange Standard.—The underlying idea of a Gold Exchange Standard is that whereas silver or any other cheap currency would be used for internal purposes, the internal currency would be converted into gold—the international currency, for meeting external obligations. As we have seen above, however, the people had no power to compel Government to give them gold in exchange for rupees, and in this respect we may say that *India did not enjoy even a genuine Gold Exchange Standard before the war.*

Maintenance of the exchange value of the rupee.—If the Government had undertaken the obligation to give a sovereign for rupees at the rate of 1 to 15, just as they gave rupees for gold at this rate, the exchange value of the rupee would have been automatically stabilised at this rate, that is, at 1*s.* 4*d.*

Though such automatic stabilisation of the rupee was not secured under the pre-war system, the Government adopted certain other measures to maintain the exchange value of the rupee at 1*s.* 4*d.*

Council Bills.—This is done with the help of the machinery of what are known as Council Bills. The Secretary of State for India requires certain large sums of money to meet his sterling expenditure in England on behalf of India, commonly known as Home Charges, but which we prefer to describe as English Charges.* Instead of sending the necessary funds from India, it has been found convenient to sell bills of exchange in England, the proceeds of which are used to meet English Charges. It is possible to do so, because normally India has an excess of exports, and those who have to send remittance to India on trade account are willing to buy these bills. The bills are ultimately cashed in India in rupees by the Government of India. In the pre-war years Council Bills were sold not only to meet English Charges, but also for other purposes as we shall see below.

In order to maintain the exchange value of the rupee, the Secretary of State was willing to sell Council Bills at 1*s.* 4⅛*d.* per rupee without limit of amount. Without going into other details about these bills, we may say that this practice had the effect of preventing the exchange value of the rupee from going beyond this limit, which may be considered the upper gold point for India when exchange is stabilised at 1*s.* 4*d.*

If exchange became weak and had a tendency to fall below 1*s.* 4*d.*, the effective way to maintain it at that level was for Government to give gold or sovereigns at the rate of 1 to 15 in exchange for rupees. The Government was, however, not bound to do this, and the way in which Government tried to maintain exchange on such occasions was by the sale of bills in India on London, known as Reverse Councils at a rate of 1*s.* 3 29/32*d.* or slightly less, this being the lower gold point for India.

The Gold Standard Reserve.—The capacity of the Government to sell Reverse Councils was limited by the amount of resources at the disposal of the Secretary of State out of which he cashed them. In order that the Secretary of State may have sufficient resources for such emergencies, a special reserve was built up to maintain the stability of the rupee in times of weak exchange. This reserve is known as the Gold Standard Reserve. It consists of the profits on the coinage of rupees and the interest on the same.

This was, however, not the only resource at the disposal of the Secretary of State to maintain exchange. A part of the Paper Currency Reserve was also kept in London and utilised for the purpose of cashing Reverse Bills when necessary. When the Reverse Bills were cashed out of the Paper Currency Reserve, a corresponding amount of notes were withdrawn in India, which led to a contraction of the currency, and had the effect of raising the exchange value of the rupee.

Expansion and Contraction of the Currency.—The coinage of rupees was as we have seen above in the hands of the Government. The only effective way by which the rupee currency was increased was by the sale of Council Bills in England, in cashing which the Government issued rupees in India.

* "The term 'Home Charges' is a great anomaly in the accounts of the Government of India. These charges represent the expenditure incurred in sterling in England by the Secretary of State for India. It was natural for the English officials in the early days of the Company to select this term to represent these charges, for they were paid to their 'home'. From the point of view of the Indian taxpayer who contributes to these payments, these charges are paid out of his 'home'. To avoid this ambiguity, we shall speak of these charges as the 'English Charges' of the Government of India." *Cf.* Financial Developments in Modern India, by C. N. Vakil, page 307.

The expansion of the currency thus depended on the demand of the Exchange Banks in England for Council Bills, which in its turn depended on the state of the export trade of India. The real need for expansion of the currency, however, begins in India as soon as the crops are ready to be moved from thousands of villages to the cities and the ports. The monetary stringency thus created is not met for some time, because the demand of the exchange banks for Council Bills takes time to become effective, and even then this demand is not sufficient to meet the stringency, which is partly due to the internal movement of goods meant for internal consumption and not for export.

Though in the expansion of the currency, the people had some indirect share, it was not in their power to contract the currency at all. The rupee which forms the bulk of the currency is a token coin, and cannot be either melted or exported without loss. The contraction of the currency took place only when the Government sold Reverse Councils to maintain the exchange value of the rupee in times of weak exchange, and cashed them by means of the Paper Currency Reserve in England.

We conclude, therefore, *that* the pre-war system was defective in as much as the volume of currency did not adjust itself to the requirements of the people at their will, or in other words, *the system was not automatic.*

Management of the Currency.—This important function of expanding and contracting the currency which ought to be left to the free will of the people, was performed by the Government. In spite of the best of motives or knowledge, it may be said that Government officials are likely to commit mistakes in determining such a delicate thing as the currency requirements of the people at a particular time.

And we know as a matter of fact that during the pre-war days, Council Bills were sold for various purposes—to meet the sterling obligations of the Government of India, to transfer the Gold Standard and the Paper Currency Reserves from India to England, to suit the convenience of the trade and so on. The effect of all this was that the number of rupees issued to meet these Council Bills was larger than required, with the consequence that prices rose. This was carried to such an extent that one of the anxieties of the Government during the pre-war years was to keep sufficient stocks of silver—or partly coined rupees—or later, fully coined rupees—always ready to meet the unlimited flow of Council Bills which the Secretary of State was selling.

On the other hand, when contraction of the currency became necessary, the action was not always prompt, as in the crisis of 1907-08. Besides, the power to contract the currency has been used not only to meet a genuine demand for contraction, but also to achieve a certain result on which the Government had rightly or wrongly set its heart. This was done when on the recommendations of the Babington-Smith Committee, Reverse Councils to the extent of more than 55 crores of rupees were sold to bring up the exchange value of the rupee to 2*s.* gold by contracting the currency. The currency was again contracted in very recent years not by the sale of Reverse Councils, but by a slight variation of the same method. The sterling securities held in the Paper Currency Reserve in London were transferred to the cash balances of the Secretary of State for his ordinary requirements, and notes to that extent were cancelled in India. If this had not been done, it would have been necessary to sell Council Bills on India leading to an increase in the volume of the currency. This was done when the Government had no definite exchange policy, and when the condition of the trade did not require it. The consequent tightness in the money market created a great suspicion among the commercial community regarding the currency and exchange policy of the Government.

The conclusion from this is that the power to expand or contract the currency in the hands of the Government is likely to be wrongly used. It may be added that the Government should be above suspicion in these matters.

Stability of Internal Prices.—As we have seen above, during the pre-war years, on account of the unlimited sale of Council Bills, more and more rupees had to be issued. This increase in the volume of the currency had its inevitable effect of raising the level of prices in India. If we compare the price-level of India with that of gold standard countries like England and the U.S.A. during the pre-war years, we find that the rise in India was greater than in these other countries.

We conclude, therefore that the management of the pre-war system, in which the chief aim was the maintenance of the external stability of the rupee, did not give sufficient attention to its internal stability.

Silver and the pre-war System.—We have seen above that the expansion of the currency in India depended on the sale of Council Bills. Or, the sale of Council Bills depended on the amount of rupees which the Government could issue in India. This means that if circumstances arose under which the Government of India found it difficult to issue rupees on account of the want of silver in sufficient quantities, the system would not work.

During the war, this difficulty was experienced, and special measures had to be adopted on the one hand to economise the use of silver, and on the other to obtain special supplies of silver from the U.S.A.

In any such emergency the price of silver is likely to rise. Because of the great demand for silver during the war in different countries, and also because of the failure of the Mexican supply, the price of silver rose, and rose to an undreamt of level.

The rupee is a token coin. But with the existing weight and fineness of the rupee, it becomes profitable to melt or export it when the price of silver goes beyond 43*d.* per standard ounce in London, with exchange at 1*s.* 4*d.* In other words, this may be considered the rupee-melting point.

This difficulty arose during the war, on account of the phenomenal rise in the price of silver, referred to above. This meant that any further coinage of the rupee at the old rate would involve the Government in a loss. The alternative was to raise the exchange value of the rupee in such a manner that the temptation to melt or export it may not exist. But as the price of silver went on rising this policy involved a parallel increase in the exchange value of the rupee from 1*s.* 4*d.* to 2*s.* 4*d.*

The principal aim of the pre-war system, namely, the maintenance of the exchange value of the rupee at 1*s.* 4*d.* was thus frustrated by this external factor over which the Government and the people of India had no control.

This leads us to the *conclusion* that if we continue the Gold Exchange Standard System with the token rupee as unlimited legal tender, we shall be at the mercy of the silver market, and all the evil consequences which it may involve.

Sterling and the Gold Exchange Standard.—Another difficulty of the Gold Exchange Standard is also due to an external factor, over which we have no control. Under this system there must be a fixed ratio between our internal currency and gold for settling foreign transactions. In view of our connections with England, we naturally settle our foreign transactions through English currency, and it has been found convenient to have a fixed relation between the rupee and the sterling at 15 to 1.

We did this on the assumption that sterling was equivalent to gold, and therefore good for international payments. But as soon as this assumption proved wrong by factors affecting the relation of sterling to gold, we were likely to be affected in an adverse manner.

During the war, sterling depreciated with reference to gold, and the only currency on a par with gold was the American dollar currency. The sterling-dollar exchange therefore became the measure of the depreciation of sterling with reference to gold. This was, however, concealed for a time by the method of pegging the sterling-dollar exchange during the war. But as soon as this control of exchange between the two countries was removed in March, 1919, the depreciation of sterling became evident.

The depreciation of sterling meant an increase in the London quotation for silver. As we have seen above, an increase in the price of silver means at a certain stage an increase in the rupee-sterling exchange. This meant that fluctuations in the dollar-sterling exchange had a corresponding and opposite effect on the rupee-sterling exchange.

We come to the *conclusion,* therefore, that under the Gold Exchange Standard, the exchange value of the rupee is liable to be disturbed by another external cause over which we have no control, namely, a change in the value of the sterling through which we make our foreign payments.

Token Rupees and the Use of Gold.—Under the present system we are faced with a curious situation. On the one hand, India absorbs large quantities of gold

every year, as the statistics of trade will show. This gold is either turned into ornaments or hoarded as a store of value. On the other hand, there has come into existence a huge token currency of rupees, which are not convertible into gold at the option of the people.

The people have naturally lost confidence in the rupee—because of its token character and because of the great fluctuations in its gold value, so far as foreign exchange is concerned. This is proved by the fact that the people are as a rule not willing to give out the gold which they possess, unless forced by circumstances to do so. They are afraid that if they once part with their gold for rupees, they will be in possession of tokens of fluctuating value, and that there is no guarantee that they will be able to get gold at the same rate, in exchange for rupees from the Government when they want it.

The token rupee currency has thus the effect of encouraging the hoarding of gold which is extremely wasteful. A system under which the large quantities of gold that India has already absorbed and is absorbing every year, would be put to better use than at present is therefore urgently required.

This argument has been ably developed by Sir James Begbie in his Note of Dissent to the Report of the Chamberlain Commission on Indian Currency and Finance.

A State Bank and Currency.—In all advanced countries, the Government and the Central Bank work in co-operation for the maintenance of a sound currency and exchange system. In fact, the actual day to day management is left to the Bank, over which the Government retains a certain amount of control. At the same time, the Bank is also in charge of the Treasury and other funds of the Government. In this way the complicated and expert work necessary to carry out any good currency system is in the hands of the expert officers of the Bank, who are obviously qualified for the same, and who are above political or party influences.

By its very position as the Central Bank, it would be, as it were, a Bankers' Bank, and thus be able to control the banking reserves of the country. In addition to this, the concentration of the general resources of the State and also of the Currency reserves would give it a pre-eminent position, and enable it to lay down a definite policy for the regular, uniform and effective management of the money market.

Such a system is not yet in existence in this country.

Summary of Defects.

For the sake of convenience, let us summarise the chief defects of the existing currency and exchange system, that we have seen above :—

(1) The expansion and contraction of the currency is not automatic, and the management of this function leaves room for grave mistakes on the part of Government.

(2) The absence of a legal obligation on the part of Government to give gold for rupees does not secure the automatic stabilisation of the rupee, which is supposed to be the main function of the Gold Exchange Standard System, and in this respect therefore India does not enjoy even a genuine Gold Exchange Standard.

(3) The pre-war system was directed to attain external stability of the rupee, but in doing so the internal stability of the rupee was sacrificed.

(4) The system will break as soon as the price of silver rises to the rupee-melting point.

(5) The system will also break as soon as sterling loses gold parity.

(6) A huge token currency of rupees of fluctuating value has come into existence in which the people have lost confidence. In consequence, gold is being hoarded to a large extent.

(7) A regular, uniform and effective management of the money market has not been hitherto possible, because the resources of the country are not under one management—as with a Central Bank.

Remedies.

A system which shows such grave defects stands self-condemned. It is obvious that no partial changes in the Gold Exchange Standard system as it exists

to-day will remove all these defects. The efforts of the Babington-Smith Committee and of the Indian authorities to do so have miserably failed only in recent years. The time has therefore arrived for a radical change in the Indian currency and exchange system.

The Gold Standard has been universally acknowledged to be the best currency system in practice, and is either in force in or is the ideal of all advanced countries.

The most economical form of the Gold Standard which has been evolved in England may be thus described :—

The only form of full legal tender is the notes issued under certain conditions —notes of the Bank of England and currency notes issued by the Government. The gold value of the sterling is maintained by a statutory obligation on the Bank of England by which it is obliged to buy gold in unlimited quantities at the rate of £3 17*s*. 9*d*. per standard ounce, and sell gold in bars " containing, approximately, four hundred ounces troy of fine gold " at the rate of £3 17*s*. 10½*d*. These rates correspond to the par of exchange.

The effect of this system has been thus described :—" In future the value of the pound sterling will be definitely fixed in terms of gold. If British money rises above the value of gold, so that less than £3 17*s*. 9*d*. will buy an ounce of standard gold, gold will be sold to the Bank of England; the volume of notes will increase and the value of British money in terms of gold will fall. On the other hand, if an ounce of standard gold fetches more than £3 17*s*. 10½*d*., British money will be taken to the Bank to be there exchanged for standard gold in amounts of not less than 400 ounces fine. This will reduce the amount of British money, and this reduction will raise the value of the remainder." (*Cf*. the Return to Gold by Dr. Gregory, pages 46-47.)

Gold Standard in India.

The introduction of such a system in India is desirable and possible with one difference. In England though the sovereign is not in circulation at present, it was supposed to be in circulation before the war, and could be demanded by the public in exchange for notes. It is after using gold currency for a large number of years or decades that the people of England have been accustomed to think of the pound sterling as equivalent to the sovereign which they could get at any time till before the war.

In India, under present circumstances, the sudden introduction of gold notes as the only full legal tender without gold coins is likely to be misunderstood, and may not succeed. It is obvious, therefore, that for some years to come at least the Gold Standard in India will require both gold coins and gold notes in circulation.

If a state of affairs could be imagined when a suitable goin coin and gold notes circulated in India as full legal tender, with other subsidiary coins including the rupee as limited tender, and when the Government of India bought and sold gold at rates corresponding to the par of exchange, we shall have a system as good as that evolved in England—a system which will be free from the defects of the existing system pointed out above.

The people will then learn the economical use of gold (defect 6); the expansion and contraction of the currency will take place automatically (defect 1), and both external and internal stability will thereby be attained (defects 2 and 3). Besides, the Indian system will no longer be liable to break by external forces as at present (defects 4 and 5).

Practical Difficulties.

The chief difficulty in the way of the introduction of such a plan is the existence of the huge number of token rupees in circulation and in hoards. When the Gold Standard is in full operation as suggested above, the rupee must be reduced to a subsidiary position, and made a limited legal tender. But this very action involves the liability of the Government to convert the rupees into gold at the option of the people, before declaring them limited legal tender. It is difficult to have even an approximately correct estimate of the number of rupees in circulation and in hoards. For our present purpose we may take 300 crores as the maximum figure of such rupees. It is obvious however that if the Government were required to convert all these rupees into gold, it would be an impossible task.

But we need have no such fears. The large masses of the people are bound to require rupees for their small daily transactions. And when we bear in mind the extent of the territory, and the number of the population that will necessarily deal with rupees, we must come to the conclusion that it will be only those rupees which are in excess of such daily requirements that will be presented for conversion.

Besides, if for the convenience of the poorer classes of the people, the legal tender limit of the rupee be fixed fairly high, say at Rs. 100 at first, then the demand for conversion of rupees into gold will be smaller. This limit may be lowered at a later date.

Though it is difficult to hazard a guess in these matters, we may say that at least 50 crores of rupees will be presented for conversion, and that the maximum number which the Government should be prepared to convert may be put at 100 crores. This does not mean that all such rupees will be presented at once or in any one year. The conversion may be timed according to the resources at the disposal of the Government, and be spread over a number of years, say at least five.

It is obvious that when this process is going on, the Government shall not coin more rupees. In other words, as soon as the Gold Standard is decided upon, the coinage of fresh rupees will stop. The demand for an increase in the currency, if any, should be met by the issue of gold coins and gold notes.

Simultaneously with the issue of gold coins or even before it, the Government should undertake to do what the Bank of England is required to do at present—to buy and sell gold at rates corresponding to the par of exchange. Like the Bank of England the Government of India may buy gold in any quantity, small or large, but may sell it only in certain large quantities.

Such an action will inspire confidence in the determination of the Government to establish the Gold Standard, and though this may be followed by a rush on the Government for gold in the beginning, there will be obvious limits to the demand, which may be followed by an inflow of gold to the Government.

Resources for a Gold Standard.

In order to establish the Gold Standard, and to meet the liabilities that will be imposed on the Government thereby, there must be sufficient resources with them, and if they are not already sufficient, suitable arrangements should be made beforehand to acquire them as and when necessary.

On the introduction of the Gold Standard it will not be necessary to maintain a separate Gold Standard Reserve as at present. For our present purpose therefore the Gold Standard and the Paper Currency Reserves may be considered as one fund. The resources at the disposal of Government in the shape of this consolidated fund are as under :—

	Crores of Rs.	
Gold	22·3	(The figures for the Gold Standard Reserve are of 31st October, 1925, and those for the Paper Currency Reserve are of 7th November, 1925).
Silver coin and bullion	89·4	
Indian Securities ...	57·1	
English Securities ...	63·2	

But as the existing rupee-sterling ratio on the statute book is 2*s.* the gold and sterling securities in the reserves are valued at this rate. In view of the fact that this rate is no longer in operation, the figures give an incorrect impression. As we propose later to fix the ratio at the pre-war rate of 1*s.* 4*d.*, the figures should stand as under :—

	Crores of Rs.
Gold	33·4
Silver coin and bullion	89·4
Indian Securities	57·1
English Securities	94·8

We thus see that the amount of gold already in the hands of Government is worth 33·4 crores. We have now to find out the way in which Government can get additional gold, if required.

The very next item in the above figures suggests a second source. This large amount of silver already in the hands of Government will be of little use to them on the introduction of the Gold Standard. Besides, with the incoming of

rupees from circulation and hoards for conversion into gold, this stock of silver will increase still further. Though we cannot determine the amount of additional silver which the Government will thus get, from what we have pointed out above, it is certain that this amount will be large. The only use to which Government can put all this silver is to sell it and acquire gold instead.

If the gold already on hand *plus* the gold acquired by the sale of silver is not sufficient, the Government must have recourse to the last item in the above figures, as the third item is not likely to be of much use for this purpose. It is submitted that the Government should sell its sterling securities to acquire more gold.

It is possible, however, to utilise the sterling securities more effectively for this purpose of finding the necessary amount of gold in the early stages of the introduction of the Gold Standard.

In spite of the pre-war policy of diverting gold from India, we had large imports of gold on private account in the settlement of our trade transactions. This policy of diverting gold from India will no longer be necessary as soon as the Gold Standard is established. In other words, the power of the Secretary of State to divert gold from India by the sale of Council drafts will disappear, and to this extent we shall have a larger import of gold than before.

The Secretary of State may still sell Council drafts to the extent of his own requirements, including those of the High Commissioner, or the Government of India may purchase sterling in India to meet the English charges.

But as it was done on certain occasions in the past, if the sterling resources already with the Secretary of State are used for his annual requirements, to that extent gold will have to be sent to India by those importers of foreign countries who may have taken our excess of exports, otherwise cancelled by the remittance, referred to above. This import of gold into India will be in addition to that due to the absence of diversion of gold from India, to which reference has been already made.

Such gold coming into India in either manner will take the place of Council drafts, or in other words of the issue of rupees in India as has been the case till now. Whereas up to now the demand for additional currency is met by the issue of more rupees to cash Council drafts, additional currency will henceforward be formed by the people tendering their gold to Government and asking for legal tender, coins or notes In other words, the gold which will come to India in either of the above manner will to a great extent be presented to the Government, and will be an additional support to the measures for the introduction of the Gold Standard.

The capacity of the Government to keep up this inflow of gold into India by the method of using sterling resources in London for meeting the English charges, is limited by the strength of these resources. The Government should, however, be prepared to allow gold to come in this way, if circumstances demand it, for some time longer even after the sterling resources in England have been exhausted. This can be done by borrowing in London to meet the English charges. This will obviously be the last step, and before the time to have recourse to it has arrived, gold would have gone to India, and therefore to the Indian Government, in large quantities This means that the demand for additional gold to be provided for in this way would not be very large. But if this step has to be taken, it will mean an addition to the Public Debt of India, which the people of India will be prepared to bear as the cost of having a sound currency system, which will more than repay the burden in a short time.

Another reason why such a step may become necessary is that the whole of the existing resources cannot be used up for introducing the Gold Standard. A certain minimum amount shall have to be retained on hand to ensure the convertibility of the existing note issue. The difficulties of the Government may, however, be minimised by giving them special powers during the transition period to allow the Paper Currency Reserve to go to a minimum level.

An attempt has been made in the foregoing remarks to lay down the general lines on which the practical difficulties in the way of the introduction of a Gold Standard may be met. The working out of the detailed stages on these lines may better be left to those more conversant with the administration of the currency mechanism of the country. With more information on these subjects than a layman can command, and with their knowledge and experience regarding the resource operations of the Government as well as the currency requirements of the people, the officers of the Finance and Currency Departments should be able to

devise stages by which the Gold Standard may be introduced in India without undue delay on the one hand, and with as little cost and trouble as possible on the other.

Sale of Silver.

We pointed out above that the rupees which will gradually return to the Government for conversion into gold, and which it may be considered will not go back into currency, will have to be melted and sold. The same will have to be done with the stock of silver, coin and bullion, already in the hands of the Government. The Government will obviously lose in this transaction (1) because of the token character of the rupee, and (2) because this action will have a depressing effect on the silver market. This second loss can be minimised if the sale of silver is spread over a series of years, and managed with due regard to the state of the silver market.

Effect on Gold and Silver Markets.

It may be said that an action on these lines will have grave effects on the precious metals—that the price of gold will rise and that of silver will fall, with consequent effects on the prices of commodities measured in gold or silver.

The Government and the people of India need not be afraid of any such cry. India has every right to reform her currency and the other countries are strong enough to manage their own affairs if they are adversely affected by the action of this country. When silver was demonetised by the Western countries, the harm done to India was not considered by them. And if now India asserts her right to have gold for the precious exports which she sends abroad, it is nobody's business to interfere.

These remarks are made deliberately. Proposals for the establishment of a Gold Standard with a Gold Currency in India were made on several occasions before this. This is, however, not the place to discuss the history of this question since the famous minute of Sir William Mansfield was written in 1864. But even a cursory perusal of the currency history of India shows that the introduction of this the only good system for India was denied because England and other countries were afraid of the drain of gold to India.*

Fortunately for us, the western countries are now faced with larger stocks of gold than they can handle without endangering its purchasing power. It is, therefore, to their benefit that gold should be used to a larger extent than before by other countries for currency purposes.†

The Gold Coin.

Since the sovereign and the half-sovereign were made legal tender in India in 1899, the people of India have become familiar with its use. At the same time, our connexion with England points to the desirability of our having the sovereign as our gold coin.

Without going into historical details, we may, however, point out one great obstacle which has come in the way of the establishment in India of a gold mint to coin the sovereign. If we adopt the sovereign as our coin, we shall be required to

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* "It seems much more likely that silver owes its position in India to the decision which the Company made before the system of standard gold and token silver was accidentally evolved in 1816 in England, and long before it was understood : and that the position has been maintained not because Indians dislike gold, but because Europeans like it so well that they cannot bear to part with any of it". (*Cf.* Professor Cannan in his Foreword to "The Problem of the Rupee" by B. R. Ambedkar, page xiii).

† "This reluctance to allow gold to go to the East is not only despicable from an ethical point of view. It is also contrary to the economic interest not only of the world at large, but even of the countries which had a gold standard before the war and have it still or expect soon to restore it. In the immediate future gold is not a commodity the use of which it is desirable for these countries either to restrict or to economise. From the closing years of last century it has been produced in quantities much too large to enable it to retain its purchasing power and thus be a stable standard of value unless it can constantly be finding existing holders willing to hold larger stocks, or fresh holders to hold new stocks of it. . . On the whole it seems fairly certain that the demand of Europe and European-colonised lands for gold will be less rather than greater than before the war, and that it will increase very slowly or not at all.

"Thus on the whole there is reason to fear a fall in the value of gold and a rise of general prices rather than the contrary." "A much more practical way out of the difficulty is to be found in the introduction of gold currency into the East. If the East will take a large part of the production of gold in the coming years it will tide us over the period which must elapse before the most prolific of the existing sources are worked out". (*Cf.* Professor Cannan, *Ibid*, pages xiii-xv).

constitute the Indian mint a branch of the Royal Mint in England under the provisions of the latter's charter. This difficulty has already been a source of trouble in the past, and India need not be at the mercy of the Royal Mint in England for this purpose.

The effective way out of this difficulty is to have a gold mohur—a separate Indian coin—of the same weight and fineness as the sovereign. This will give us all the advantages of the sovereign without its disadvantages, inasmuch as the Government of India need not wait for the sanction of the Royal Mint in coining the gold mohur.

Rate of Internal Exchange.

Under the Gold Standard the external exchange will be maintained by the sale and purchase of gold by Government as suggested above. Besides, it will be on a par with that of England, the sovereign and the mohur being identical for all practical purposes.

The question of internal exchange or the relation of the rupee to the mohur becomes a subsidiary question. It will no more raise those mysterious controversies and hair-splitting differences which have hovered round the question of the rupee-sterling exchange under the Gold Exchange Standard system.

The best thing to do is to adopt the ratio of Rs. 15 to 1 mohur on the simple and solid ground that the people have been accustomed to it for many years, and have found it convenient for all calculations. In such matters, the sentiment of the people should be respected, and the sentiment is decidedly in favour of this ratio. Besides it is not likely to do any harm which the opponents of this ratio may point out, because the supposed harm is with reference to the external value of the rupee, which is no longer required to be considered.

It may be added that the adoption of this popular ratio will facilitate the introduction of the Gold Standard. One of the main difficulties which we discussed above is the drain on Government for gold, on account of its liability to convert rupees into gold. If the ratio be 15 to 1, the drain on Government will be materially less than if the ratio be 13⅓ to 1, which is advocated in some quarters. For one gold mohur the people will have to tender 15 rupees under our suggestion, whereas in the other case they will get a mohur for less number of rupees. And when the extent to which this conversion is likely to take place is taken into account we shall realise that the other rate will involve the Government in a great loss, which can be easily avoided.

Note-issue.

Rupee Notes.—Even when the rupee is made limited legal tender, rupee-notes of smaller denomination, that is of Rs. 10 and 5, may be allowed to remain in circulation. It should, however, be understood that these notes are in place of tokens, and hence limited legal tender like the rupees which they represent. When a genuine demand for additional currency takes place, efforts should be made to put into circulation gold coins and gold notes.

Gold Notes.—Gold notes of the denomination of 1 gm. (gold mohur); 5 gms., 10 gms., 100 gms., 1,000 gms., may be issued.

Paper Currency Reserve.—The constitution of the Paper Currency Reserve will have to be changed. It should consist of (1) sufficient amount of gold and gold coins to convert gold notes; (2) of subsidiary coins, namely, rupees, to convert rupee notes; and (3) of securities. The general principle of the existing permanent constitution may be followed. At least half the gross circulation of notes should be supported by a metallic reserve, which should primarily consist of gold or gold coins. The amount of silver need not be more than half the gross circulation of rupee notes. The fiduciary portion should consist of easily realisable securities, chiefly mohur or sterling.

Management of the Paper Currency.—The management of the Paper Currency should be handed over to the Imperial Bank, which should have a separate department for doing this work.

The Imperial Bank.

Suitable legislation will have to be passed to ensure the control of the Government over the Bank in the proper discharge of its important duties regarding the

management of the Government balances, and Paper Currency. The buying and selling of gold, which will be a necessary feature of the Gold Standard, should also be handed over to the Bank, as in England. The Bank should also be entrusted with the remittance transactions of the Government, which will, under the Gold Standard, be of less importance than before.

Detail regulations regarding the management of each of these important functions should be laid down. The veto of the State in certain important matters should be secured. There should be a certain number of official and non-official directors nominated by the Government. A majority of the directors should be Indians, and an effective arrangement should be made regarding Indianisation of the Bank's service.

Indianisation should not mean the selection of a few Indians for the posts of subordinate officers. It should mean that all posts in the gift of the Bank will be open to Indians first, provided qualified men are available. In order to ensure such qualifications, the Bank should be required to put on special training a certain number of selected and tried men, or send a certain number of such men for higher training abroad, at the expense of the Bank, every year.

Advantages of a Gold Standard.

(1) The establishment of a Gold Standard and Gold Currency as outlined above will put the Indian Currency system on the soundest of basis hitherto contrived. It will be a necessary transition to that stage when gold notes will be the only full legal tender, and gold coins will not circulate as in Engand.

(2) This system will give us stability of internal prices and external exchange.

(3) Complaints about the mismanagement of the currency system, and sometimes of undesirable motives in connexion with it on the part of Government will no more exist.*

(4) People will learn to use their hoarded gold in a better way on the one hand, and foreign capital, if required, will be available with greater ease than before on the other.

(5) The Finances of the Government will no longer be upset by that mysterious item, loss or gain by exchange.

(6) It will relieve Indian trade and industry from all those defects of the present system from which they have suffered so long.

(7) In short, in so far as a sound currency system can help the economic development of a country, the right step will have been taken.

Summary of Recommendations.

(1) That the coinage of rupees should be stopped.

(2) That the demands for additional currency should be met by the issue of gold coins and gold notes.

(3) That a separate gold coin, called the mohur, of the same weight and fineness as the sovereign be issued by the Indian mints.

(4) That the Government should undertake, through the Imperial Bank, to buy and sell gold at rates approximately equal to the par of exchange, as is done by the Bank of England.

(5) That the resources to introduce the gold standard with gold currency are adequate, and can be increased, if necessary, by suitable arrangements.

(6) That the detail stages by which this should be done need to be carefully worked out on the general lines suggested.

(7) That after a certain period, the Government should declare the rupee a limited tender, the limit being fixed at Rs. 100 at first, and lowered subsequently.

(8) That the rupee notes of Rs. 10 and 5, may remain in circulation with the same legal tender limit as the rupee.

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* "The recent experience both of belligerents and neutrals certainly shows that the simple gold standard, as we understood it before the war, is not fool-proof, but it is far nearer being fool-proof and knave-proof than the gold-exchange standard. The percentage of administrators and legislators who understand the gold standard is painfully small, but it is and is likely to remain ten or twenty times as great as the percentage which understands the gold-exchange system. The possibility of a gold-exchange system being perverted to suit some corrupt purpose is very considerably greater than the possibility of the simple gold standard being so perverted" (*Cf.* Professor Cannan, in his Foreword to "The Problem of the Rupee" by B. R. Ambedkar, page xii).

(9) That for internal exchange the ratio of the rupee and the mohur should be 15 to 1.

(10) That gold notes of the denomination of 1 gm., 5 gms., 10 gms., 100 gms., 1,000 gms. should be issued.

(11) That in the Paper Currency Reserve at least half the gross note circulation should be supported by a metallic reserve, primarily of gold, and the rest by securities, chiefly mohur and sterling.

(12) That the management of the Paper Currency, of remittance transactions, and of the sale and purchase of gold should be handed over to the Imperial Bank, over which there should be adequate control to ensure the interests of the State and the public, with effective provisions for Indianisation of the Bank's service.

APPENDIX 20.

Statement of evidence submitted by Mr. P. A. Wadia, M.A., Professor of Economics and Politics, Wilson College, Bombay, and Mr. G. N. Joshi, M.A., Professor of Economics and History, Wilson College, Bombay.

1. Before the outbreak of the War the civilised world had settled down in matters of currency to the gold standard after a prolonged and varied experience. Silver which had up to the third quarter of the nineteenth century preserved its position alongside of gold as a monetary standard was subsequently abandoned by one country after another, and reduced to a token currency. The only countries which before 1914 did not possess a gold standard were China and India. The gold standard, as it existed before the War, rested on a few simple principles. The sole legal tender money consisted of gold and of substitutes which were convertible into gold at the option of the holder. The effective and ever-increasing use of these substitutes—bank notes, cheques, and bills—depended on the confidence in the public mind that whenever gold was wanted for internal purposes or for export, it was readily available. If relative stability in the purchasing power of the monetary unit in terms of commodites is the criterion by which the soundness of a currency system is to be judged, experience had demonstrated that gold was better fitted for serving as the basis of currency than any other commodity, the gold standard secured both relative stability in the internal level of prices, and stability in the foreign exchanges. The experience of the War and the post-war years has confirmed this judgment in favour of the superiority of the gold standard. The belligerent countries during the War resorted to enormous issues of paper money to meet the cost of the War, instead of meeting that expenditure by taxation and loans. The paper money soon became inconvertible, the gold standard disappeared, prices rose enormously, and the fluctuations in the price level combined with the dislocation of the foreign exchanges in disorganising trade and industry, discouraging savings, and endangering the very foundations of economic life and prosperity.

2. The problem that faces the Western countries to-day is the problem of securing stability in the level of prices, securing a monetary unit which could cease to fluctuate from day to day, and it is also a problem of securing stability in the foreign exchanges, which would restore confidence and foster the revival of international trade. It is felt that a restoration of the simple gold standard would contribute to European recovery and prosperity as almost no other single measure will, that the introduction of the gold standard at the present time is possible in practically all European countries with their substantial gold reserves; and that any prospective short period fluctuations in the purchasing power of the monetary unit under a gold standard can be substantially controlled by credit operation judiciously exercised by banks.

3. The fear of deflation resulting in increased unemployment in a country like Great Britain, which has reached what one may call the limit of maximum utilisation of her industrial resources, and the fear of redundancy of gold leading to a sudden fall in its value in terms of commodities, have led Mr. J. M. Keynes to advocate the permanent abandonment of gold as a standard, and the adoption of a system of managed currency based on index numbers for the future. But these proposals have been condemned as theoretically unsound by leading representatives of economic thought, and have been rejected in practice by the virtual resumption of the gold standard in Great Britain in May, 1925.

4. In India the same question of monetary reform has been opened up again by the appointment of a royal commission to "examine and report on the Indian Exchange and currency system and practice, to consider whether any modifications are desirable in the interests of India, and to make recommendations." We must remember, however, at the outset that whilst the main problem for European countries to-day is that of finding methods of reverting to the pre-war gold standard, subject to such modifications in the direction of further economy in the use of gold for internal purposes as the lessons of the last ten years may have taught them, the problem for India is not a simple issue of this nature—not a question of simply returning to the pre-war currency system. The terms of reference of the present commission are wide enough to allow us to raise a more fundamental issue. Ever since the closure of the mints to the free coinage of silver in 1893 this country has been subjected to a series of experiments in matters of currency; whilst, having as our goal, the gold standard, we have drifted between 1900-1914 into a system which has been called the gold exchange standard; this system was abandoned owing to the abnormal conditions which ensued on the outbreak of the War. The question now before this country is therefore of wider import than one of merely returning to pre-war conditions; it is briefly the question, What is the system of currency that is best adapted to the requirements of this country? Are the principle and practice of the gold exchange standard calculated to meet these requirements? And if not, can the simple gold standard meet them more effectively? Finally, if the gold standard is economically desirable, is it practicable?

5. We shall endeavour to answer these questions in the order in which we have raised them, and shall preface our answer by a brief history of our currency measures between 1893 and our own days.

History.

6. India had a gold standard and gold currency in the past; it was only in the first half of the nineteenth century that the East India Company reorganised the currency system, making silver money the sole legal tender. The violent fluctuations in the gold price of silver, which began about 1870, led the European countries to abandon silver as standard money in favour of gold. In India these fluctuations in the gold price of silver raised problems of a somewhat different character—primarily concerned not with instability in the internal level of prices, but with the upsetting of budget calculations, the increase of taxation, and with instability in foreign exchanges, which affected the foreign trade. The Government of India desired to secure greater stability in the foreign exchanges, in particular, the sterling value of the rupee, and, as an initial measure, closed the mints to the free coinage of silver in 1893. When the relative stability in the sterling value of the rupee was secured in 1898, the Fowler Committee recommended the introduction of the British sovereign as "a legal tender and a current coin in India" and the opening of Indian mints for the coinage of gold. The Fowler Committee looked forward to "the effective establishment in India of the gold standard and currency," the Coinage Act of 1899 made the sovereign legal tender, with the token silver coins in circulation as unlimited legal tender. Arrangements were made for opening a gold mint; but these arrangements were shelved owing to the hostility of the British Treasury. The Fowler Committee recommended that no further coinage of rupees was to be resorted to till gold occupied a predominant position in circulation, and that the profit on the coinage of rupees was to be set apart as a separate fund.

7. Anxious to meet the home charges and the trade demand for rupees, the Government of India found in the surplus sale of Council Bills a ready and convenient method; Mr. Lindsay had suggested it to the Fowler Committee, and the continued favourable balance led the Government to fresh coinage of rupees, a process which started as early as 1901; gold was economised, and the dues of India were settled at the same time. The profits on the coinage of rupees were accumulated in a reserve called a Gold Standard Reserve, which was soon transferred to London on the ground that in case of adverse balance India would be saved the cost of transmitting gold to London. Whilst the Government thus drifted in practice into the Gold Exchange Standard, as late as 1912 it wrote to the Secretary of State: "It is, we think, an undisputed fact that the establishment of a gold currency was regarded as the logical and natural sequence of the closing of the mints to silver and the necessary accompaniment of a gold standard. Such a

measure will mark a step along the path which has been authoritatively accepted as the line on which our currency must develop, and in time it will be of great assistance in maintaining the stability of our currency system."

8. The Chamberlain Commission in 1914 definitely advised the Government of India to abandon the idea of an effective gold standard, and sanctified the then existing gold exchange standard. "Our view is," the Commissioners observe, "that India neither demands nor requires gold coins to any considerable extent for purposes of circulation, that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations."

9. Before these recommendations could be considered the War broke out; India found herself a creditor country on a large scale; the Government of India to liquidate these obligations went on purchasing silver and coining rupees. When the price of silver rose above 43*d.* an ounce further coinage at the existing rate became impossible; the rate of exchange broke loose from its frail moorings; the fiduciary portion of the Paper Currency Reserve, which was only 14 crores before the War, was increased till it reached nearly 100 crores in 1919. As backing to the reserve Government showed investments in British Treasury Bills, but as this was not enough, a portion of India's favourable balance was adjusted by a gift of £100,000,000 to the British Treasury. In the meantime exchange rose in sympathy with the price of silver from 1*s.* 4*d.* *to* 2*s.* 4*d.*, and finally to 2*s.* 10*d.* in 1920.

10. The complete breakdown of the foreign exchanges led the Government at the end of the War to appoint the Babington-Smith Committee, which once again sanctified the Gold Exchange Standard, this time at a new ratio of 2*sh.* gold to the rupee; they also recommended at the same time the opening of a mint for the coinage of gold. The ratio was accordingly altered to 2*sh.* by the Coinage Act of 1920. Shortly after the price of silver fell below 2*sh.*; and the Government of India endeavoured to maintain the legal rate by the sale of reverse bills. Taking advantage of the situation, all those who had been unable to remit money during the War tendered rupees to the Government at the 2*sh.* rate, and bought claims on the Secretary of State, which were met from the liquidated Treasury Bills and other balances belonging to India. The process went on for some time, involving the Government in a loss of 45 crores of rupees. The attempt had to be finally abandoned, with the result that the exchange fell to 1*s.* 7*d.*, then 1*s.* 6*d.*, and reached 1*s.* 3*d.* in 1921. The market rate was left to itself, though the legal rate was 2*s.* During these last five years India has had continued favourable balances, but no additions have been made to the volume of her currency. By careful manipulation of the volume of money a working stability in the neighbourhood of 1*s.* 6*d.* has been secured during the last 12 months, and Government have announced that till the finding of the Commission they will not allow the exchange to go beyond 1*s.* 6*d.*

11. Thus Indian Currency consists of sovereigns (occupying an insignificant position), rupees, and notes. The rupees are token coins, but legal tender to an unlimited extent. Between 1900 and 1914 sovereigns were convertible into rupees at the rate of 1 to 15, but rupees were not legally convertible into sovereigns. The exchange rate remained stable at 1*s.* 4*d.* during this period. During the War the exchange broke down; after the War it was fixed at 2*sh.*, only to be abandoned again. To-day it has been maintained fairly steady at 1*s.* 6*d.*, with the help of two factors—a favourable balance of trade and the gold price of silver below 43*d.* an ounce.

The Gold Exchange Standard.

12. The present Commission, amongst other things, is asked to consider whether "any modifications" in the present currency system "are desirable in the interests of India." We hope to be excused for urging that the main issue, in our opinion, is the question of abandoning or continuing a currency system into which the Government of India drifted, a system which was found convenient in practice, and was therefore subsequently pronounced to be theoretically sound. If on an examination of the theory and practice of the Gold Exchange Standard system, it is found to be theoretically unsound and practically harmful to the best interests of India, the question of considering modifications does not arise at all.

13. The only economist of reputation who offered a theoretical defence of the Gold Exchange Standard before the War was Mr. Keynes, who, in his "Indian Currency and Finance," indicates the fundamental principle of a sound system of currency as below: "The Currency problem of each country is to ensure that they shall run no risk of being unable to put their hands on international currency when they need it, and to waste as small a proportion of their resources on holdings and actual gold as is compatible with this. . . . As long as gold is available for payments of international indebtedness at an approximately constant rate in terms of the national currency, it is a matter of comparative indifference whether it forms the actual national currency." "Speaking as a theorist, I believe that it contains one essential element—the use of a cheap local currency—artificially maintained at par with international currency—in the ideal currency of the future."

14. The Chamberlain Commission, using almost identical language, pointed out that the cardinal feature of the gold exchange standard in India was "absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations." We cannot allow this statement to pass without noticing that so far as India is concerned this cardinal feature does not exist so long as there is no legal obligation on the part of the Government of India to convert the rupee into sterling.

15. Mr. Keynes gives us this further description of the Gold Exchange Standard: "The Gold Exchange Standard may be said to exist when gold does not circulate in a country to an appreciable extent, when the local currency is not necessarily redeemable into gold, but when the Government or Central Bank makes arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of local currency, the reserves necessary to provide these remittances being kept to a considerable extent abroad."

16. Briefly, the claims made on behalf of the Gold Exchange Standard are that it secures stability of exchange, diminishes the pressure on gold, and provides a cheap medium of exchange for internal currency. It is a cheap, efficient, and economical system.

Examination of the Theory.

17. In his "Indian Currency and Finance" Mr. Keynes contends that the Gold Exchange Standard has for its fundamental object stability of exchange. He further contends that the only purpose of a sound currency is to secure fixity of foreign exchanges, and to provide facilities for payment of foreign debts. Now it is an elementary principle familiar to every student of economics that sound system of currency fulfils certain indispensable objects, and satisfies a few basic needs of economic life. It supplies a standard of values, offers a universally acceptable medium of exchange, serves as a standard for deferred payments, and as a store of values. Briefly, a sound system of currency secures relative stability in the purchasing power of the monetary unit in terms of commodities, and therefore also secures stability of exchanges. In his "Indian Currency and Finance" Mr. Keynes makes fixity of foreign exchanges the primary concern of a sound monetary system. But in his "Tract on Monetary Reform" he gives up this earlier view, and maintains "stability of exchange is in the nature of a convenience, which adds to the efficiency and prosperity of those who are engaged in foreign trade. Stability of prices, on the other hand, is profoundly important for the avoidance of various evils." If the gold exchange standard aims primarily at fixity of exchanges, it is aiming at what is merely a facility or convenience to those engaged in foreign trade, and not at what is of profound importance to the country at large. Assuming that the gold exchange standard secures stability of foreign exchanges, does it secure relative stability in the internal level of prices?

18. Whilst we have experience in favour of the proposition that an effective gold standard secures both a stable level of prices and stability of exchange, the history of Indian prices during the period 1900-14 makes it sufficiently clear that a gold exchange standard does not secure stability in the price level. Between 1900 and 1914 there was a rise in the price level in India which had nothing analogous to it in the history of the price levels in other countries. This extraordinary rise in price level can only be accounted by the over-issue of the token rupees that took place in the same period. But Mr. Keynes claims that after the War India has secured the advantages of a relatively stable level of internal prices. In the first place, Mr. Keynes himself admits that this was brought about more perhaps

by chance than by design. In the second place, this relative stability of prices in India is a misleading statement, as it is the result of a comparison with countries like Germany, France, and Russia, that had over-issued paper money, and suffered from violent fluctuations in price level. And even if India secured the advantages of a relatively stable price level after the War, this was due not to the Gold Exchange Standard, which has ceased to function during the last seven years, but to the restriction in the issue of currency by the Government with a view to maintain a higher rate of exchange since 1921. Finally, the stability of price level in detail, for whch Mr. Keynes pleads, and which may be desirable for a country like Great Britain, which has reached the point of maximum utilisation of her industrial resources, and for which therefore fluctuations in either direction may spell unemployment and misery, may not be equally desirable for a country like India. with potentialities of industrial development in the future, and for whom therefore slowly rising prices, not due to over-issue of tokens, but resulting from the adoption of a gold standard, may be a necessary stimulus to industrial expansion. Great Britain desires stability in detail, or short term stabilty because of the fear of deflation; in India it is not falling, but rising, prices against which we are sought to be protected by a managed currency. And a slow and natural rise in prices is not necessarily harmful.

19. If we turn to the question, has the Gold Exchange Standard during the period that it worked, namely, 1900 to 1914, secured stability of exchanges, the answer is simple. Stability of exchange under the Gold Exchange Standard is practicable, and can be maintained at any ratio at or above 1*s.* 4*d.* so long as India has a favourable balance of trade, and so long as the price of silver is below 43*d.* an ounce. These two conditions were present during the period. When in 1907 one of these conditions was absent the system was on the point of breaking down, and during the War, when the second condition was absent, it broke down completely. Stability of exchange under the Gold Exchange Standard depends upon conditions which the Gold Exchange Standard itself does not necessarily secure.

Imperfections of the Gold Exchange Standard.

20.—(1) Under this system the rupee has been reduced to the position of an inconvertible note printed on silver; the printing of these notes is at the discretion of the Government, and the Government of India went on coining rupees between 1900 and 1914 irrespective of all considerations of the actual demand for money. The one tangible proof of the over-issue of our rupee currency is to be found in the continuous rise in the level of prices in India from 1900 to 1914 far in excess of the rise in the level of prices in the rest of the world in the same period. The reasons for this inflation of prices in India are obvious. The additions to the rupee currency made from time to time owing to the normally favourable balance of trade are incapable of being withdrawn; the rupee currency admits of expansion but not of contraction. The rupee does not permit of being melted; people will not hoard it to any appreciable extent, because its value is arbitrary; and it has no use as a coin for export. Whereas under an automatic system of currency, like the Gold Standard, with an open mint, there is a mechanism for the expansion and contraction of currency, according to the needs of commerce; under the gold exchange system there is ample provision for expansion, but no provision for contraction.

(2) As a result of this lack of provision for contraction we find the currency system inelastic, and incapable of readily responding to the demands of the market. In a country like India where there is a seasonal demand for currency, and banking facilities are either unknown or undeveloped, the evils of an inelastic currency are accentuated by a system which leaves the management of the currency in the hands of a body which is not in touch with the day-to-day requirements of the commercial community. This inelasticity is indicated by the violent fluctuations in the bank rate as between different months of the year, and is a sufficient condemnation of a monetary system devised and intended to supply money to the people when they want it. There must be something intrinsically wrong with a currency system that permits the bank rate to rise from 4 to 9 per cent. at a time when the country has an outstanding balance of several crores of rupees in her favour from month to month.

(3) The Gold Exchange Standard seeks to stabilise the exchanges by a mechanism which involves the sale of Council Bills by the Secretary of State to an unlimited extent in normal times when the balance is in favour of India, and by

the sale of reverse Bills in exceptional years, when the balance turns against India. If the mechanism worked smoothly for a number of years, it was because the balance of trade was almost always in favour of India, and made it profitable for the Secretary of State to go on selling Bills and making a profit on the coinage of rupees. This mechanism for stabilising exchanges can only be effective, if there is legal obligation on the Government of India to convert rupees into gold. So long as this legal obligation does not exist, the mechanism is one-sided and can never be effective—nay, what is more, the absence of this obligation makes the currency system of India a hybrid system, neither a Gold Standard nor a Gold Exchange Standard.

(4) The most serious disadvantage to the country that the Gold Exchange Standard involves is that it leads to the frittering away of her gold resources at a stage of her economic life when she needs all the gold that she can possibly command for the development of her agriculture and her industries. This dissipation of the gold resources is brought about in a two-fold manner: firstly nearly £60,000,000 worth of her gold, including £40,000,000 in the Gold Standard Reserve, is locked up in London for the stabilisation of her exchanges and secondly increasing quantities of gold from year to year have been imported into the country without being mobilised and used for the development of her economic life.

21. It has been urged that the Gold Reserve should be located in London, because in case of an adverse balance India will require gold in London; London is the Clearing House of the World; and gold in London means saving freight charges, and interest, and payment on spot. This case for the location of the reserve in London is clearly put forward in a speech delivered by Sir Basil Blackett in December, 1923: "For foreign debt must be paid in international currency. If India is called upon to meet her indebtedness at a time when she is unable to provide goods in sufficient quantity, or insufficiently short time to satisfy her creditors, she must find cash at short notice. Normally an adverse balance could be met by borrowing cash; but borrowing abroad is not desirable in itself, and in a crisis may become impossible. It is, therefore, necessary to keep reserves of ready cash for the purpose. It is essential that our external reserves should be available in case of need without delay at an international financial centre."

22. These contentions it is not difficult to meet. In the first place India is normally not a debtor, but a creditor country. In normal years she has to receive and not pay gold. Even if there is an adverse balance, it can be adjusted by the operation of the bank rate or by the flotation of a temporary loan abroad. Sir Basil overlooks the operation of an effective discount rate under the gold standard with a centralised reserve. If these expedients fail, gold may be shipped abroad to meet her foreign obligations. But it may be urged that India has to pay every year Home Charges to the extent of £27,000,000 and in the case of an adverse balance there will be difficulty in the adjustment of accounts as India has a silver currency. Normally the Home charges are met by the export of commodities covered by the Secretary of State's Bills; and these bills are sold all throughout the year. In any case the balance of dues may be met by the shipment of gold in the last resort.

23. With a gold standard in India the Imperial Bank may be left to itself to keep if it thinks proper a portion of its gold reserve in sterling securities in an international centre like London; a measure like this would not lock up, as the present Gold Exchange Standard does, the total gold reserves of this country in London and deprive India of the means of fostering her industries and improving her agriculture.

24. But what is more the Gold Exchange Standard has not resulted in an economy of gold. The Chamberlain Commission in defending the Gold Exchange Standard urges that gold will be hoarded in a country like India, and will not be available for shipment in a crisis, that India is too poor a country to have such a luxury as a gold currency, that India is a land of small transactions and that gold in circulation is wasteful. If by "gold in circulation" the Chamberlain Commission meant that every transaction was to be settled in gold, no economist will ever favour the use of gold. Every one now recognises that notes and cheques increasingly take the place of gold in the settlement of by far the larger number of commercial transactions. A gold standard with a gold currency does not mean that the majority of commercial transactions will be settled in gold. On the other hand it is an undoubted fact that the Gold Exchange Standard which was meant to economise the use of gold has practically resulted in the most unproductive use of the precious metal. It tends to drive gold out of circulation, and makes people hoard it, because there is no guarantee of converting the token into gold when

necessary. The only effective remedy against hoarding is the restoration of public confidence by the introduction of a gold currency. During the last 3 years alone this country has imported 150 crores worth of gold; the total balance of trade in these 3 years in favour of India was 200 crores. And yet the greatest need of India to-day is capital; during these years the bank rate fluctuated from 4 per cent. to 9 per cent.; and the country is asked to look to external capital for the development of her resources. Probably nowhere in the history of the world can we find such a strange and anomalous combination of economic conditions—dearth of currency and dearth of capital—combined with enormous imports of the precious metals in partial settlement of our balance of trade as is to be found in India at present under the Gold Exchange Standard.

25. As for the argument that gold will not be available for shipment in times of necessity, we have the recent experience of the free outflow of gold to the extent of nearly £10,000,000, from a country which has neither a gold currency nor a centralised national reserve in the country itself. If India is a country of small transactions, all that is necessary is the provision of a larger volume of subsidiary token coins, and the raising of the legal tender limit of the token coin to a higher level than obtains in other countries.

26. The Gold Exchange Standard has thus neither secured stability of foreign exchanges nor has it given us stability of prices. It has not only failed to economise the use of gold, it has been responsible for a phenomenal dissipation of the gold resources of this country. It has encouraged habits of hoarding, hampered the growth of banking and the accumulation of capital. It has given us a currency system that is inelastic; in a country dominantly agricultural it has failed to provide adequate currency and capital for the needs of agriculture. It has locked up the existing gold reserves of the country in a distant money market to provide against a contingency which might arise once in ten years. And it has incidentally involved the country in heavy losses in futile attempts to stabilise the exchanges at times when the conditions that make stabilisation possible were absent.

The Gold Standard the only sound monetary system for India.

27. The only sound monetary policy for India is the establishment of a gold standard with gold currency. The Fowler Committee recommended it in 1899; almost all the finance members of the Government of India had expressed themselves in favour of the gold standard before 1899; even as late as 1912 the Government of India adhered to the view that the gold standard was the goal of all currency measures. It was the Chamberlain Commission that first gave a scientific defence of the Gold Exchange Standard in 1914; and the theory of the system was elaborated only after its accidental advantages had been discovered in practice between 1900-1913. Our examination of the theory and practice of the Gold Exchange Standard has led us to the view that the best interests of this country require a currency system that the rest of the world has already accepted —a gold standard pure and simple.

28. The balance of trade is normally in favour of India from year to year; India can, therefore, like the United States of America demand the import of enormous quantities of the precious metals, if her foreign exchanges were left to themselves. These might be made the basis of an effective gold standard securing the stabilisation of price level so vital not only to India but to the civilised world. With a free market for gold, India would be in a position to save the rest of the world to some extent from the stagnation and depression that now threaten it—firstly in so far as such a free market would release for circulation the amounts hitherto hoarded or kept back from monetary use, and secondly in so far as on the basis of a gold reserve in the country a credit superstructure on a larger scale might be erected to stimulate trade and industries, to promote agricultural production and to quicken the process of economic development. The greatest economic need of India to-day is capital; and with a gold standard India's gold would be used for the creation of credit both internally and externally, enabling the country to buy from abroad the technique and the equipment necessary for her industrial development and also enabling her to relieve her agricultural population from the incubus of indebtedness. The economic prosperity of India to-day means the prosperity of the European countries. The true remedy for reducing unemployment in Great Britain may be in the direction of giving to India an effective gold standard which by stimulating her economic life will increase the purchasing power of her people and create a demand for English commodities.

29. We have been told that with India on a gold standard, the annual supply of gold will be inadequate to the extraordinary demand for the metal which India might make for the adjustment of her balance of trade, and that this might prove a potent factor of disturbance in the attempt which the rest of the world is making to-day for price stabilisation on a gold basis. It is very difficult at the present juncture to say anything definitely with regard to the future trend of gold prices. The production of gold in the last few years has been declining, due perhaps to increased cost of production : and we cannot safely count on possibilities of the discovery of new gold fields or of improvement in methods of refining. It may also be likely that South and Central America may adopt a gold standard thus increasing the demand for gold. On the other hand owing to changes of habit already observable in the West the demand for gold for the purposes of internal circulation may be considerably reduced and thus indirectly increase the effective supply of gold The development of an effective banking organisation in India coupled with the introduction of the gold standard may throw large quantities of gold on the market, releasing the precious metal for international purposes. All that one can say with regard to the immediate future is that judging from past experience, when for nearly a century and a half the production of gold has kept pace with the growth of population and general economic development, we may trust that no lasting changes in the purchasing power of gold will take place suddenly.

30. The growing popularity of paper currency in India during the last eleven years may be judged from the fact that the amount of notes in circulation increased from an average of 62 crores in 1913-1914 to 1,91 crores on the 31st October, 1925. The paper currency reserve on the same date in 1925 was composed of the following items :—

Reserve in coin and bullion.	*Rs.*
Silver coin	83,21,00,000
Gold coin and bullion	22,31,00,000
Silver bullion under coinage ...	7,13,00,000
Total	1,12,65,00,000
Securities in India	57,11,00,000
Securities in England	21,99,00,000
	1,91,75,00,000

The percentage of cash reserve to the total circulation as fixed by law at present is 50, and with a more centralised and adequate banking system may even be reduced to 45. But in the history of no other country in the world do we find the practice of keeping the fiduciary backing of the paper currency reserve in securities of a currency different from the currency of the country, with a view to ensure not the convertibility of the paper money, but to secure the stability of the foreign exchanges. Theory will never countenance such a measure; and in practice it may in a time of crisis shake the foundations of economic life.

31. The money market in India is known to suffer from the evils of seasonal stringency, a stringency which has never been so acute as during the last two years The provision for the issue of emergency currency undoubtedly meets the situation to some extent; but the problem of seasonal stringency can be adequately solved only by the adoption of two measures—the introduction of an effective gold standard, and the development of a centralised banking organisation which implies the transformation of the Imperial Bank of India into a national or State bank and the transfer of the management of the Paper Currency to the Imperial Bank.

32. The nationalisation of the Imperial Bank of India will mean the elimination of the interest of the private share holders as earners of large dividends, the conversion of the present shares into fixed interest bearing scrip and the reorganisation of the present constitution of the Bank. The management of the Paper Currency by such a national bank will make possible the concentration in a single reserve of the gold reserves of the country on the strength of which the bank will be able to judge the demand for currency from time to time, and be able to supply the additional currency when required without appreciably raising the rate.

33. The question of remittances to England in payment of the Home charges does not present any difficulty under an effective Gold Standard, with a centralised

banking system and a branch of the Imperial Bank in London. But we think it necessary to add that the nationalisation of the Imperial Bank and the transfer of the management of the Paper Currency to the Bank will aggravate the economic difficulties of this country if they are not simultaneously accompanied by the introduction of an effective gold standard. The introduction of the gold standard, the nationalisation of the Imperial Bank and the concentration of the reserves by the transfer of Paper Currency to the Bank are all organic parts of a single scheme for the economic development of this country and the adoption of any one part of the scheme apart from the rest may do more harm than good to the economic life of this country.

34. We shall conclude by saying that the gold standard is eminently practicable to-day in India, with the gold in the Paper Currency Reserve and with the balance of trade in her favour. The introduction of an effective gold standard does not necessarily imply the immediate conversion of the existing token currency into gold. What is needed immediately is the adoption of certain preliminary measures.

(1) No fresh additions to the currency to be made in rupees or rupee notes; all such additions to be in the form of gold notes or gold certificates. Thus no immediate additions to the currency in the shape of gold coins will be necessary nor will it be necessary to convert the existing stock of rupees into gold.

(2) So long as this country has not built up adequate gold reserves—though we have already substantial reserves to which additions can be made from year to year with the balance of trade in our favour—it is not necessary to make the existing token currency convertible into gold for internal purposes.

(3) A gold coin to be called the Mohur of the same fineness and weight as the sovereign be made the sole standard coin of this country, and a mint for the free coinage of gold to be established immediately

(4) The relation of the rupee to the standard coin to be defined by law, preferably as 15 to 1.

(5) The issue and management of the paper currency to be transferred to the Imperial Bank of India safeguarding the interests of the public, by a revision of its constitution and by its transformation into a State Bank.

APPENDIX 21.

Supplementary Note by Mr. P. A. Wadia, M.A., and Mr. G. N. Joshi, M.A., Wilson College, Bombay, dated the 24th December, 1925.

We submit herewith two supplementary memoranda as requested by the President :—

(1) Index numbers showing trend of prices between 1899-1914 in India, in the United Kingdom and the United States. These index numbers show greater fluctuations in an upward direction in India than in either of the two other countries.

(2) Statement showing the feasibility of converting the present currency into a currency resting on a gold basis.

We shall be glad to furnish you with any further information you require by way of elucidation.

Supplementary Memoranda I.

Trend of Prices in India, the United Kingdom and the United States.

Year.	India. (*1)	United Kingdom. (*2)	United States. (*3)
1899	96	61	92
1900	116	68	100
1901	110	63	99
1902	106	62	103
1903	99	62	103
1904	101	63	103
1905	110	65	105
1906	129	69	111
1907	137	72	118
1908	138	66	111
1909	124	67	115
1910	122	70	125
1911	129	72	118
1912	137	77	127
1913	143	77	110
1914	147	77	118

* 1. The general index number for India is based on prices of 11 imported articles and 28 articles exported from and consumed in India, with 1873 as the base year. (*See* Sir Lionel Abraham's evidence, Babington Smith Committee Report. Vol. I, p. 89.)

* 2. For the United Kingdom, in order to make a closer comparison with Indian prices, Sauerbeck's index number has been modified so as to make 1873 the base year. (*See* Babington Smith Committee's Report, Vol. I, p. 89.)

* 3. For the United States we have 1900 as the base year.

Supplementary Memoranda II.

Statement showing the feasibility of converting the present currency into a currency resting on a gold basis.

The total purchasing power of the country in 1919 was 362 crores of rupees including silver coins and notes. 80 crores of rupees have been added between 1919 and 1924. Thus roughly the country possesses to-day 450 crores of media of exchange in coins and notes. Of these 260 crores are coins and 190 crores are notes.

We assume that under an effective gold standard the country will require 200 crores of rupees as token currency. Thus the total rupee currency that requires conversion into gold is 250 crores.

Now our assets in the Paper Currency Reserve are £22 millions in gold at 10 to 1; we have also £23 millions in sterling securities at 10 to 1. These £45 millions at 15 to 1 are equivalent to 67 crores worth of gold. We have in addition 58 crores of Government of India securities which will need to be renamed as Securities in Gold, and which will serve as backing to gold notes of a similar amount in circulation. We have in addition £40 millions in the Gold Standard Reserve equivalent to 60 crores. Thus our assets are :—

Gold equivalent to	67 crores in P.C. Reserve.
,, ,, ...	60 crores in Gold Standard Reserve.
Renamed gold— Securities in the Paper Currency Reserve.	58 crores to secure fiduciary gold notes.
	185 crores.

We have further 60 crores of surplus rupee currency in circulation and 90 crores of rupees in Paper Currency Reserve. These 150 crores of silver rupees if melted and sold as silver bullion will give us gold coins more than sufficient to meet the balance of our requirements under an effective gold standard.

With this conversion completed, we shall be on a *sounder* footing, in as much as we shall have reduced the fiduciary issue of gold notes to 58 crores worth, as against the present fiduciary issue of 58+35 crores (the latter representing the equivalent of £23 sterling securities at 15 to 1) of rupee notes.

APPENDIX 22.

Letter from the Secretary, The Indian Merchants' Chamber, Bombay, to the Joint Secretary to the Royal Commission on Indian Currency and Finance, No. T/1709, dated the 1st December, 1925.

1. I am directed by the Committee of this Chamber to acknowledge the receipt of your two letters Nos. 1 and 47, dated 22nd September and 21st October, 1925, respectively and to send hereby their views in reply to the same.

* * * * * * *

7. My Committee will now turn to the terms of reference to the Royal Commission, which are:—

(1) to examine and report on the Indian Exchange and Currency system and practice;

(2) to consider whether any modifications are desirable in the interests of India; and

(3) to make recommendations.

8. As for the first point, the present Indian Exchange and Currency system is what is commonly described as the Gold Exchange standard System and my Committee have repeatedly expressed their very strong views against the same and asked for the establishment of a real gold standard system with a gold currency in circulation. Therefore the kind of modification of the present system that my Committee consider not only desirable but also necessary is the establishment of an effective Gold Standard which has been the goal aimed at from the very beginning when 30 years ago we decided to give up the silver standard and closed the Mints to the free coinage of silver. This was put very clearly by the Committee of 1898 commonly known as the Fowler Committee which definitely said that it was of opinion that the habit of hoarding did not present such practical difficulties as to justify a permanent refusal to allow India to possess a Gold Currency. That Committee also laid down that while the British Sovereign should be made legal tender in India, they thought that the Indian Mints should at the same time be thrown open to the unrestricted coinage of Gold and they explained that they recommended these measures for adoption as they were looking forward to the effective establishment of a Gold Standard with a Gold Currency, based upon the principles of the free inflow and outflow of Gold. My Committee are strongly of opinion that if the above recommendations of the Fowler Committee had been carried out, India would have been placed on an effective Gold Standard many years ago and the country would have been saved from the disastrous consequences of the manipulation which the Gold Exchange Standard system facilitated. Unfortunately, the Government of India disregarded this most important recommendation of the Fowler Committee and continued to manipulate the Indian Currency system in the way it best suited them, and perhaps suited also the interests of London, as the world's central gold market, because the steps taken were calculated to prevent gold coming to India to be tendered to the Currency authorities here, and to encourage the issue of enormous quantities of the token rupees against the sterling handed over in London to the Secretary of State. There were continual protests from the Indian Commercial community against this procedure and a definite demand for an effective Gold Standard with a Gold Currency was put forward in 1912 in the Imperial Council of those days by the late Sir Vithaldas D. Thackersey, an ex-President of this Chamber. Partly as a consequence of this agitation, the Royal Commission commonly known as the Chamberlain Commission was appointed in 1913 to investigate the system and practice in vogue in those days. They coolly brushed aside the above fundamental recommendation of the Fowler Committee and reported that although the belief of that Committee was that a Gold Currency in active circulation was an essential condition of the maintenance of the Gold Standard in India, they (the Chamberlain Commission) considered that the history of the previous fifteen years clearly showed that the Gold Standard had been firmly secured without this condition. This white-washing decision of the Chamberlain Commission by which the wrong practice in vogue since 1900 was tried to be justified is directly responsible for the mistakes in the management of our Currency system during the last ten years when it was clean forgotten that India had been firmly established on a Gold Standard and the ratio was moved up on the ground of rise in silver or the rise in general prices, etc., which had nothing to do with gold. This would not have

been possible if we had an effective gold standard in this country and the rupees had been circulating only as tokens just as shillings do in England. Therefore the first point in the reform of the present practice that my Committee would insist on is an effective Gold Standard with a Gold Currency.

9. This naturally leads to the question: what kind of Gold Currency my Committee have in mind. Our reply would be that as the sovereign has been the legal tender in India ever since we changed over to the Gold Standard, it may be allowed to continue as our standard gold coin but only on one condition, viz., that it should be minted in India just as sovereigns are now being minted in the Dominions. This had been actually done in 1918 and so what my Committee now advocate is no new departure. However, if there are any obstacles to-day in the way of sovereign being allowed to be coined in this country, then my Committee would ask that the gold coin should be the Gold Mohur of 1918 which was of exactly the same weight, fineness and dimensions as the sovereign. As soon as it is decided that the Gold Standard should be made effective in this country all further coining of rupees should be entirely discontinued, and all new coinage (except, of course, subsidiary coins) should be confined to gold and gold only. When gold is tendered by bankers for local currency, that gold should be coined into mohurs and kept in the Paper Currency Reserves until it is required to go into circulation. The question would naturally arise as to what should be the relation of the gold coin to the rupees now in actual circulation. My Committee think that there can be only one answer, viz., that the gold mohur should be equal to Rs. 15, as it actually was under the Act of 1918, because it was at this ratio that the rupees had circulated ever since 1898, and any change in such ratio would vitiate all long-term contracts expressed in terms of rupees.

10. My Committee have not overlooked the difficulty that the very large amount of silver rupees now in circulation presents, and they advocate that the present rupees should be allowed to continue as full legal tender for the present, the only change to be made being that no further rupees should be allowed to be coined.

11. The next point that we should have to consider would be the encashment of the note-issue. My Committee consider that the best solution of this difficulty will be to permit encashment for the present in either rupees or mohurs, or both, at the option of the Government. This will protect the reserves of gold against any undue raid by the public, and, on the other hand, permit of the gold being gradually passed into circulation as and when it was found to be expedient to do so.

12. My Committee would like to make it clear that the above suggestion of encashment in rupees or mohurs and of allowing rupees to continue to remain full legal tender is intended only for the first stage of going over to the effective Gold Standard, and that as soon as our reserves become sufficiently strong in the matter of gold holding, the question of some limit on the legal tender of the rupee would have to be considered, say, within ten years after the new system comes into force.

13. The next point that my Committee would like to emphasise is that no currency shall be issued in future against anything but gold. As regards sales of Council Bills they should be restricted to the actual needs of the Secretary of State for the year.

14. My Committee would like to mention in this connection that it will now be best to hand over to the Imperial Bank of India the charge of currency and note-issue under such restrictions and safeguards as may be deemed necessary for correct functioning of the Gold Standard and the automatic expansion and contraction of the circulation, such restrictions and safeguards to be clearly laid down by law.

15. They would also like to emphasise that not only currency and note-issue operations but the whole remittance operations of the Government of India should now be entrusted to and carried on through the Imperial Bank of India, and that the Finance Department should divest itself of all this work which is essentially of a banking nature.

16. They would also urge that the balances of the Secretary of State in England should also hereafter be left with the Imperial Bank of India in London.

17. My Committee would also urge the greater development of banking facilities all over India, as they feel not only that the present facilities are still inadequate, but also that such development will very much facilitate the smoother working of the currency system in India.

18. My Committee will now briefly touch upon the various points raised by the Joint Secretaries in their memorandum.

(i) The first question is: "Is the time ripe for a solution of our currency problem?"—and my Committee's reply would be that it has long been ripe, as so many countries have now reverted to the Gold Standard, while India, the one country whose balance of trade gives it command of large amounts of gold, still lags behind. As for the comparative importance of stability in internal prices and in foreign exchanges my Committee are of opinion that while both are desirable, Government manipulation to bring about any such stability, even if that were possible is to be very much deprecated. The right solution is to go to the Gold Standard, which will give India, firstly, exchange stability with every important Gold Standard country in the world, and next greater stability in the general level of prices of commodities by free flow of commodities from countries where they may be cheaper to the countries where they may be dearer. Therefore, if the stability of prices and of exchanges is a desirable thing to achieve, it furnishes a most important reason for going back to the Gold Standard without undue delay.

My Committee do not wish to discuss the effects of a rising or falling rupee nor of a high or low rupee on trade and industry, because they cannot agree that the standard money of any country should be manipulated on such considerations because any such manipulation vitiates all outstanding contracts, and inflicts unmerited hardship and injustice on different sections of the community.

(ii) Second question is: "With relation to what standard and at what rate should the rupee be stabilised, and when should the decision be taken?" Our answer is that there is no question of stabilising the rupee. What my Committee desire is a Gold Standard.

(iii) The third question is: "If the rate selected differs materially from the present ruling rate how should transition be achieved?" This question implies stabilising of the rupee with foreign currencies, which we have already said we do not want. As for the method of passing over the transition period, my Committee would leave it to experts. My Committee consider that what will be required if India has a Gold Standard will be fixed relation of its token rupee to its Standard Gold Coin for internal purposes only. They, however, think that such internal ratio should be 1/15th of the gold sovereign or the gold mohur, and will only add that the pre-war par did differ in the case of England very materially from the gold value of the £ early in 1924, and there were fluctuations before the pre-war par was reached. There will be similar fluctuations here also, but they should not deter us from selecting such internal ratio as may be dictated by sound scientific and economic considerations.

(iv) The fourth question is about the measure to be adopted, and whether the Gold Exchange Standard should be continued. The reply to this will be found in the principal part of this memorandum.

As for the composition, size, location, and employment of our Paper Currency Reserve, my Committee consider that—

(1) it should be composed very largely of gold coin and bullion, although some part may be securities;

(2) its location should be in India, at least as regards the gold part of it.

As for what is now called the Gold Standard Reserve, my Committee suggest—

(1) that a part of it may be transferred to the Paper Currency Reserve to give it a larger backing of gold and gold securities, and thus facilitate the establishment of an effective gold standard;

(2) that the remainder may be held in reserve for the support of the gold standard system that is herewith proposed to be introduced.

(v) The fifth question is about the control and management of the note-issue. My Committee would like to see this handed over to the Imperial Bank. The metallic backing should be as largely as possible in gold. The encashment facilities should be as liberal and extensive as circumtances permit.

(vi) The sixth question is as to minting and use of gold as currency; the views of my Committee have already been indicated in the earlier part of this statement.

(vii) The seventh question refers to the remittance operations of the Government. My Committee feel that all such operations should now be carried on through the Imperial Bank of India.

(viii) The eighth question refers to seasonal demands for currency. My Committee would suggest that the total of such currency to be issued should be 10 per cent. of the then existing note-issue, and that such issue should be made when the bank rate is as follows : —

10 crores when the bank rate is 6 per cent. and the rest when the bank rate is 7 per cent.

(ix) The ninth and the last question is about purchases of silver. My Committee consider that all such purchases ought always to have been made by open tender in India in rupees and for delivery in India, but they think the issue is now merely academical, because if further coinage of rupees is discontinued no silver will be required to be purchased by Government for many years, if at all.

APPENDIX 23.

Statement of evidence submitted by Mr. Kikabhai Premchand, Partner of Messrs. Premchand, Roychand and Sons, Bullion, Exchange and Finance Brokers, Bombay.

(1) A. Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

B. What is the comparative importance of stability in internal prices and in foreign exchanges?

C. What are the effects of a rising and a falling rupee and of a stability of high or low rupee on trade and industry, including agriculture, and on national finance?

(A) It is our opinion that, owing to the constantly changing conditions upon which our financial and economic structure depends, the time will never be completely ripe for a conclusive solution of Indian currency and exchange problems. However, stability in exchange and commodity prices is a most essential factor in promoting the welfare of the country as a whole, and present conditions are sufficiently normal to permit that definite steps be taken with that end in view. The way has already been partially paved through the remarkable rehabilitation of most of those European countries disrupted by the War, while the resumption of the gold standard by Great Britain and various other nations should simplify our own problem.

(B) Stability in internal prices and in foreign exchanges are more or less interdependent, but the former is of much more importance to the country as a whole, because the vast majority of the Indian population is only indirectly affected by foreign exchange rates. This is primarily an agricultural country and, to a certain degree, self-contained, so that comparatively few of the peoples' needs must be sought abroad. For those classes whose incomes are fixed or very limited (and these certainly constitute a majority) the smallest possible variation in the prices of essentials is desirable.

(C) This is an extremely broad question, which might lead to endless discussion if one attempted to treat it exhaustively. In merely stating our opinions on the various points raised we are basing our judgment on personal observations and impressions rather than attempting to substantiate our contentions by recourse to the almost endless statistics that might be brought to bear on the subject.

A *rising rupee* reflects improved trade and a substantial demand for India's products. It reduces costs of all imported articles, facilitates the repayment of debts abroad, makes far more favourable Governmental budgets, and thereby opens the way for tax reductions. Although somewhat detrimental to indigenous industries that must meet foreign competition, we must bear in mind that ours is primarily an agricultural country, and, furthermore, that Government is now committed to a policy of discriminate protection.

A *falling rupee* encourages increased purchases of our products by foreign consumers, and discourages imports from abroad. This, however, is only a temporary artificial stimulus to trade, which is usually followed by periods of depres-

sion as internal price levels rapidly adjust themselves to the new exchange ratio. Government's obligations being more difficult to meet, increased taxation becomes almost inveitable.

The law of supply and demand is effective in bringing about adjustments to changes in currency values, but wide fluctuations are most undesirable—particularly so in this country, where speculation is rife and legitimate commerce easily discouraged.

While we firmly believe in stabilisation, we contend that the sudden transition to either a high or a low rupee would be detrimental to the interests of the country. We are not of the opinion that there is a magical level for the rupee at which all of our problems would find their solution, and the desired stabilisation could be accomplished with a minimum disturbance of existing economic and financial conditions.

(2) A. In relation to what standard and at what rate should the rupee be stabilised, if at all?

B. When should any decision as to stabilisation take effect?

(A) Until such time as a gold standard is practicable the rupee should be linked to the pound sterling, thus affording a gold exchange standard. In view of the comparative ease with which the rate has been maintained at or about 1s. 6d. during recent months, we should suggest that stabilisation at that level would be most feasible.

(B) Immediately the report is published.

(3) If the rate selected differs materially from the present rate, how should transition be achieved?

Unless the rate finally selected is approximately the current market rate the transition will present almost insurmountable difficulties. Any abrupt change would certainly cause serious consequences, while we doubt if even a gradual but marked alteration of the present rate could be accomplished without disrupting the financial machinery of the country.

(4) A. What measures should be adopted to maintain the rupee at the rate selected?

B. Should the gold exchange standard system in force before the war be continued, and with what modifications, if any?

C. What should be the composition, size, location, and employment of a Gold Standard Reserve?

(A) To sell Council Bills between the limits of 1/6 and 1/6 3/16 and Reverse Council Bills at the lower gold point of 1/5 13/16*d*.

(B) It is our opinion that the gold exchange standard system in force before the War should be reinstituted, with a change in the exchange ratio to that indicated above, and fixed upper and lower limits.

(C) *Location.*—London.

Composition.—British Treasury Bills and Indian sterling securities.

Size.—£50 millions or such greater sum as may be found necessary to meet changing conditions.

Employment.—(*a*) To regulate exchange.
(*b*) For emergency purposes.
(*c*) To utilise under favourable opportunities for the gradual repayment of India's sterling debt.

(5) A. Who should be charged with the control of the note issue, and on what principles should control or management be transferred to the Imperial Bank of India, and if so, what should be the general terms of the transfer?

B. What provisions should be made as to the backing of the note issue?

C. What should be the facilities for the encashment of notes?

D. What should be the policy as to the issue of notes of small values?

(A) The control of the note issue should gradually be transferred to Imperial Bank of India, and Government should begin in trade centres, and gradually extend the system to principal mofussil towns, in order to avoid the distrust of notes prevalent among ignorant people. It is our opinion that the Imperial Bank of India should function in all such matters as a State Bank.

(B) The present provisions for the backing of the note issue are satisfactory, except that Indian rupee treasury bills and rupee securities should be replaced by gold or British treasury bills. The metallic reserves should be maintained at 50 per cent. (gold and silver).

(C) The Imperial Bank of India should be given wider powers and larger balances to facilitate the encashment of notes. The present system of cashing them at currency offices is cumbersome and troublesome.

(D) The notes of small values should be freely issued both by Currency or Treasury Offices and the Imperial Bank of India. In fact, it is our opinion that the one-rupee notes should be reinstated, in spite of considerations of cost, as they were popular, and have a very distinct educational value.

(6) A. What should be the policy as to the minting of gold in India and the use of gold as currency?

B. Should the obligation be undertaken to give gold for rupees?

(A) The policy of minting gold in India should be a free exchange of gold bars for sovereigns and *vice versa*—a reasonable charge to be made by the mint. Government should, when fixing a ratio between sovereign and the rupee, also give a price at which they would buy gold bars and pay for them in rupees, as in the case of sovereigns. While the use of gold as currency is highly desirable, it is not practicable at the present time in view of the widespread habit of hoarding. It can only be gradually introduced over a period of years.

(B) Ultimately yes, but under existing conditions this could not be feasible.

It is our conviction that a gold standard should be gradually introduced concurrently with determined efforts on the part of Government to discourage the hoarding habit. We have in mind a practical scheme, by means of which both these desirable aims could gradually be accomplished.

(7) A. By what method should the remittance operations of the Government of India be conducted?

B. Should they be managed by the Imperial Bank?

(A) As in pre-war days, with sales of Council Bills by public tender as required.

(B) It is our opinion that the entire business of Government remittances should be managed by the Imperial Bank of India both in India and in England.

(8) A. Are any, and, if so, what, measures desirable to secure greater elasticity in meeting seasonal demand for currency?

B. Should any, and, if so, what, conditions be prescribed with regard to the issue of currency against Hundis?

(A) When the rupee is stablilised funds will be readily transferable from London to India and *vice versa* through the medium of exchange operations, and, therefore, the necessity for further special measures will be eliminated.

(B) The present provisions of the Paper Currency Amendment Act, under which currency notes are issued against Hundis is quite satisfactory, and we do not consider a revision of these conditions necessary.

(9) Should any change be made in existing methods for the purchase of silver?

No. London is the most accessible and favourable market for Government to buy silver. Making such purchases in foreign markets would introduce exchange complications, while such purchases made in India would have the effect of unsettling our local markets to too great an extent.

APPENDIX 24.

Statement of evidence submitted by Mr. Phirozeshah M. Dalal of Messrs. Merwanjee and Sons, Exchange, Finance and Bullion Brokers, Bombay.

1. *Questions* 1 *and* 2.—I do not wish to enter into the various phases of the Indian currency question since the closing of the Mints in 1893, but will confine myself to the discussion of the subject since 1920, when the 2*s*. gold ratio was established by statute. It is now admitted on all hands that the fixing of the ratio at 2*s*. gold was a grievous mistake. The attempt to maintain the ratio at 2*s*. gold by sale of Reverse Councils ended in a loss of many millions to the Government, and of heavy losses to those engaged in the trade and industries of the country. When the attempt to maintain exchange at 2*s*. gold failed, the Government adopted for the time the policy of letting exchange take its course and in 1921 it dropped to 1*s*. 3*d*. Since then by various manipulations by the Finance Department of the Government of India, notably the contraction of currency, aided by heavy exports and a series of splendid harvests, exchange has been forced up to 1*s*. 6*d*., at which level it now stands. The question now is whether exchange should be allowed (1) to regulate itself, or (2) should be forced up to a higher level, or (3) stabilised at the present level of 1*s*. 6*d*., or (4) brought back to the pre-war level of 1*s*. 4*d*. Those who advocate the first course that exchange should be left to regulate itself (retaining the 2*s*. gold rate on the statute book), state that Government can thereby control prices, raising exchange in India when prices have an upward tendency and lowering exchange when prices have a downward tendency. In other words, they aim at stability of prices by Government manipulation of exchange. Such a course would be most harmful to the interests of India. It means in fact an attempt to regulate prices in India and keep Indian prices on a level different from world prices. Such power to manipulate exchange and stabilise prices in India must end in disaster to the economic development of India, principally its industrial development, and this country has had bitter experience of the same in the last three years. Exchange has been forced upon the plea of stabilising internal prices with the result that foreign imports have been pouring into the country and every indigenous industry in competition with foreign industries is in a state bordering that of ruin. The only industries that are able to stand this intense foreign competition are monopolistic industries like jute and tea. Exchange has been arbitrarily raised 12½ per cent. in the last few years with no corresponding reduction in wages, because any attempt to lower wages meets with the most strenuous opposition (even Government itself favouring a non-reduction of wages), and the industries that have to face foreign competition are tottering. I do not refer to agricultural industries which have not felt the strain to the same extent as manufacturing industries owing to the high world prices for certain raw products, which prevail at present, but which also will feel the effects in the years to come. The power to manipulate exchange which the Government at present possess has already done immense harm to Indian industries. To give them permanently the power to stabilise prices by manipulating exchange is to give them a power which no nation in the world gives to its Government, even where Governments are responsible to the legislature. To give this power to the Government of India, which under the present constitution is only partially responsible to the legislature, is therefore open to greater objection, as it gives them the power to make or mar the fortunes of the Indian people.

2. As regards the second course, whether exchange should be forced up still higher, the answer can only be an emphatic No. The disastrous consequences of moving exchange up are plainly visible in the pitiable condition of Indian industries. Even the Government of India have lately admitted that any further rise in exchange would be prejudicial to producers, and unless high protective duties are to accompany a further rise in exchange, the position of most Indian manufacturing industries would be hopeless.

3. As regards the third course—that of stabilising exchange at 1*s*. 6*d*.—I have already referred to the evil effects which this rate has had on the industrial development of India, and will have on the agricultural situation in future.

4. I am, therefore, of opinion that the fourth course—that of lowering the exchange to the pre-war ratio of 1*s*. 4*d*.—is the best course for India and should be carried out at the earliest opportunity if her industries are again to thrive and she is to be able to face foreign competition. The competition from foreign countries, especially those with depreciated currencies like Japan, France, Belgium, and Italy, may be met by lowering the exchange to 1*s*. 4*d*. To keep the rupee-sterling exchange high when these countries are working on a depreciated

currency is an incentive to these countries to pour goods into India. The gold standard is now established in Great Britain and her important colonies, and continental Europe is gradually reverting to the same. The opinion has been expressed by leading statesmen and financiers in England that the establishment of the gold standard will lead to a gradual fall in gold prices, and this is a strong reason for reverting to the 1*s*. 4*d*. ratio. For, as gold prices fall, the price which India will realise for her produce will be less and the trade balance in her favour will get less. As prices fall all over the world imports into India will increase and competition of foreign imports will grow and India can only face this if her exchange is also lowered. It will be, therefore, to India's advantage to revert to the 1*s*. 4*d*. ratio.

5. The raising of exchange has led to the lowering of the rupee price of gold from Rs. 24 per tola, the pre-war price, to Rs. 21-3 the present price. This lowering of the price has led to enormous imports of gold in recent years, the import in 1924-5 being 73·78 crores. The surplus savings of the country are being diverted more and more into gold, and people prefer to buy gold rather than cloth and other necessities of life. This is having a detrimental effect on indigenous industries, and also on Lancashire which cannot sell the quantity of piece goods to India which she would otherwise do. This huge import of gold is having a serious prejudicial effect on the industrial and financial development and can only be checked by reverting to the 1*s*. 4*d*. ratio. Vast quantities of the savings of the country which would be diverted into fruitful and productive channels, are being sterilized by purchases of gold. It is stated by some that India will soon get saturated with gold at the lower price, but my experience as a bullion broker for the last 34 years is that India is never saturated with gold, and that if the present low level of gold is maintained she will continue to absorb large quantities of gold, except in years of scarcity, to the great detriment of her economic development.

6. But the advocates of 1*s*. 6*d*. exchange say that if the exchange is lowered to 1*s*. 4*d*., the Government would have to find Rs. 3 crores more to meet the Home charges. The answer to this is that Government should economise and save the Rs. 3 crores, or raise the money by additional taxation. Even additional taxation would be preferable to getting the 3 crores by maintaining exchange at 1*s*. 6*d*. For not only Government get Rs. 3 crores by keeping exchange high, but they put an additional burden of 12½ per cent. on all tax-payers by raising the sterling price of the rupee In other words, every rupee of revenue the Government raises has an enhanced value measured in commodities of 12½ per cent. A budget which balances itself by raising exchange is unsound financially and economically, and the practice of balancing it by raising exchange cannot be too strongly condemned.

7. But it is urged that 1*s*. 6*d*. is now the " natural " rate of exchange, caused by the balance of trade in favour of India, aided by currency manipulations. The answer to this is that the natural rate of exchange is the rate at which the silver contents of the rupee will exchange for gold. This natural rate works out at the present price of silver of 32*d*. at a fraction over 1*s*. per rupee. The natural rate of exchange was abandoned when the Mints were closed to the free coinage of silver in 1893, and the unnatural and artificial ratio of 1*s*. 4*d*. per rupee was adopted. After years of industrial and economic trouble this unnatural rate of 1*s*. 4*d*. became effective, and prices and wages and other conditions settled down to the new ratio. Then came the great War which upset this ratio, as a result of worldwide inflation of currencies and destruction of commodities. This was made the occasion for raising the ratio to 2*s*. gold, followed by grim realities, which lowered it to 1*s*. 3*d*. in 1921. A series of favourable harvests and contraction of currency has enabled the rate to be raised now to 1*s*. 6*d*., but that does not make it the natural rate Even 1*s*. 4*d*. ratio is not the natural rate, but is nearest to the natural rate, and should be forthwith restored.

8. The trade figures for the last few years show that the heavy balance of trade in favour of India has been created mainly by the enormous foreign demand for cotton at high prices owing to the short crops in America. Taking away this factor the balance of trade is enormously reduced, and it is not safe to assume that the world will continue to buy large quantities of Indian cotton at considerably over pre-war prices. The great development of cotton-growing in the world, particularly in the British Empire and countries under British influence point in future to a less demand for India cotton at lower prices, and this may make the keeping up of exchange at 1*s*. 6*d*. a matter of difficulty. When that difficulty arises the Government must resort to fresh currency manipulations to maintain exchange at 1*s*. 6*d*., with a repetition of the disastrous consequences to the finances and industries of the country.

9. And here I must state that the Government of India could have maintained exchange at 1s. 4d. gold at any time during the last two years, by buying sterling at 1s. 4d., gold point. In October, 1924, exchange advanced to 1s. 5⅞d. (sterling) and this was equivalent to 1s. 4d. gold. It was at this critical moment that Government deliberately broke away from the 1s. 4d. gold ratio, and raised exchange to 1s. 6d., i.e., over 1s. 4d. gold point, in spite of strong protest from the country, particularly from Bombay. At the time when they did so there was unmistakeable signs that Great Britain would soon revert to the Gold Standard, and that sterling would raise to par with gold. The deliberate breaking away from 1s. 4d. gold therefore meant that Government regardless of the economic consequences wanted to raise exchange to 1s. 6d. sterling which would soon also be 1s. 6d. gold. If Government had then stuck to 1s. 4d. gold and met all demand for rupees by purchasing sterling at 1s. 4d. gold point. Exchange would have gradually receded to 1s. 4d. instead of standing at 1s. 6d. to-day. The consequences of that act of the Government we see in the disaster which has overtaken Indian manufacturing industries, and which will be felt acutely in the agricultural industries as world prices recede as a result of the establishment of the gold standard in most of the leading countries of the world.

10. It is estimated that the total remittances which India has to make to meet Government expenditure in England of various kinds, and the private remittances from India that is of private individuals and of profits on foreign capital employed in India, amount to about Rs. 100 crores per annum. It is easy to remit this sum in years of big harvests in India when there is a great foreign demand for Indian raw products, and world prices for such products are high. But it is a difficult matter when the reverse is the case. The ratio fixed between gold and the rupee should therefore be such as to enable these remittances to be made year after year without a jerk to the financial and economic system of India. The fixing of a high ratio must lead to efforts in years of bad exports to meet these remittances by contraction of currency, and consequent financial and industrial harassment. And the higher the ratio the greater the drain on the country to meet, other things being equal.

11. Any change of the ratio from 1s. 4d. which was the legal ratio from 1893 to 1920, i.e., for 27 years, must upset the relations between debtors and creditors. The raising of the ratio must benefit the creditor as against the debtor, the Government as against the tax-payers, and private creditors against private debtors. As the masses in India are steeped in indebtedness, the fixing of a higher ratio of exchange means the laying of an additional grievous burden on them.

12. Too much importance has also been attached to the necessity of controlling internal prices by manipulating exchange. Unless an attempt is to be made to control internal prices apart from world prices, i.e., setting up prices in India not based on world prices then an automatic exchange system can regulate internal prices as well as a manipulated exchange system. Under an automatic currency system if Indian prices went over the world level imports would pour into the country, exchange would fall to gold export point, gold would be exported, currency would contract and prices would fall. The process would be reversed if prices went below the world level. Automatic working of exchange and movement of internal prices on world level was a noticeable pre-war feature, and would be again operative if an automatic currency system is re-established.

13. I am of opinion that if the Government had not adopted this policy of a high exchange the Government of India Rupee loans would have been floated by this time at a half per cent. less interest than is now paid by the Government, and a great saving in interest charges would have resulted to Government. If exchange had been allowed to recede to 1s. 4d. gold point, and Government had shown its willingness to maintain it there, a free flow of money into and out of India would have immediately commenced, the money rates in India, would have fallen and tended to approximate to the Bank of England rate, the nervousness in the money market so noticeable in 1922 to 1925 would have disappeared, a great demand for Government rupee securities would have sprung up, the Government rate of interest on their loans would have immediately fallen, and the yearly interest charge would have been considerably reduced. If the policy of a high and fluctuating exchange is persisted in the interest rate for borrowing will have to be kept high, and not only this but foreign holders of Government securities will sell off Indian securities and remit money out of India at every favourable opportunity. Such action on their part will lower the quotations for Government securities and keep the Government borrowing rate high. In the next few years huge quantities of Government bonds are maturing and large rupee loans have to be raised. Unless

the exchange policy is settled satisfactorily, the loss to Government on the conversion of the maturing bonds and flotation of new loans will run into crores, and the loss to the Government only means additional burdens on the people.

14. Not only has the rate of borrowing on Government loans been high in the last few years, but the Indian Corporations have also had to pay high rates for their borrowings in India, ranging from 6½ to 6 per cent. And the flowing of money into Government and Corporation loans at high rates has made it exceedingly difficult for industrial concerns to raise money either by way of debentures or preference shares, and has been a serious check to industrial expansion, particularly in Western India. Not only has the high exchange policy of Government lowered or extinguished industrial profits by encouraging foreign competition, but has also made the raising of industrial loans a task of great difficulty. Unless, therefore, the exchange problem is satisfactorily settled, industrial development will continue to receive a serious check.

(In the above paragraphs I have endeavoured to answer questions 1 and 2 of the questionnaire though I have not strictly confined myself to these questions).

15. *Question* 3.—If it is decided to revert to 1*s.* 4*d.* ratio, I am of opinion that the transition should be achieved step by step. It is feared that importers may suffer if exchange is lowered. But this need not be if importers keep their exchange covered, and at present it is possible for them to cover exchange for 12 months forward at practically the same rate as ready. If their exchange is covered a lowering of exchange will do them good but no harm as a fall in exchange will raise the value of their goods. If a raising of the exchange rate is decided on, and this is inconceivable, then it is not necessary to make any suggestions for the transition period, as the Indian Finance Department will do so on the lines they have followed in the past and with fearful consequences.

16. *Question* 4.—I think a definite move should now be made towards the establishment of a gold standard in India. It is not possible to establish the gold standard in India immediately and with a stroke of the pen, considering the vast amount of silver rupees in circulation which, though called " token," are legal tender to an unlimited amount. Till these rupees are reduced to real tokens, and the amount that can be given as legal tender is reduced, the gold standard cannot be established. The first step towards the establishment of a gold standard is the stopping of rupee coinage. It may even be necessary to melt the rupees and sell them as bullion when favourable opportunities occur, and collect gold with the proceeds. It will be years before the reduction of the rupee to the level of a real token can be carried out, and the process would have to be effected by reducing step by step the amount of rupees which can be given as legal tender. No insuperable difficulties stand in the way of the establishment of a gold standard if once the policy is decided on, and the Government of India are given a free hand to carry out that policy, and devote themselves whole-heartedly to carrying it out. When the Indian Mints were closed to the free coinage of silver the policy was laid down of going to a gold standard. India would have been on a gold standard by now if that policy had been faithfully adhered to and her gold resources had not been played with, and converted into silver rupees on some pretext or other. The establishment of a gold standard in India will place her on the same footing as all the advanced nations of the world. But once this policy is embarked upon there should be no wavering as in the past, and in the interests of India alone should weigh at every step taken to carry it out.

17. As regards the Gold Standard Reserve, it will not be added to if there is no further coinage of rupees, and the interest on the same should be carried to revenue as now. When the gold standard is fully established the Reserve can be used for some purpose beneficial to India, *e.g.*, reducing her sterling loans.

18. As regards measures to maintain the rupee at the rate selected, only such measures will be necessary as were in force before the war, *i.e.*, the import and export of gold at gold points, and the use of the Gold Standard Reserve in case of necessity.

19. *Question* 5.—The note-issue should be transferred to the Imperial Bank of India, and an Act should be passed for the purpose of the transfer, and for laying down rules for the management and control of the issue by the Bank. All facilities for the encashment of the notes should be given, the eventual aim being to make currency notes of any denomination and to any amount encashable at all the main offices of the Bank, and to a limited amount at the branches. The backing of the notes should be in gold and silver and securities, the gold to be an

increasing amount and the silver to be a decreasing amount step by step. The fiduciary issue to be not less than 50 per cent. to begin with and as at present.

20. As regards issue of notes of small value, I think that the one-rupee note should be re-issued if it is found that the expense of such issue is not heavy. The use of this note has an educative effect on the masses in the use of paper money, and will help in the passage to the gold standard.

21. *Question* 6.—The Indian Mints should be thrown open to the minting of gold coins, preferentially the sovereign and the half-sovereign. But if the Mint in London cannot get over its objections to the minting of the sovereign and half-sovereign in India, then a mohur and half-mohur and a quarter-mohur should be coined in India. The weight and fineness of these coins should be determined after the exchange ratio between gold and the rupee has been fixed. The mohur may be made the equivalent of Rs. 20, the half-mohur Rs. 10, and the quarter-mohur, Rs. 5.

22. As regards the use of gold as currency, in the initial stages gold coins will have to be given freely, till such time as the Indian people get more used to notes. There are unmistakeable signs that the people are taking more to the use of notes, and after a time, when the people find that they can get gold when they want against notes, gold will not be so much in demand. The vast masses of India do not really want a gold coin in circulation, taking into account their income and standard of life, but in order to satisfy the sentiment of the wealthier classes gold coins will have to be given freely in the earlier stages. The obligation to give gold should not be legally undertaken until a vast amount of gold is accumulated in the currency reserves, but Government should give gold as much as possible and convenient in the transition period.

23. *Question* 7.—The remittance operations of the Government of India should be handed over to the Imperial Bank. Once the budgeted amount is remitted to London by the Bank, the Bank should stop making remittances on Government account, and leave the balance of trade to be adjusted by the trade, when the balance is favourable, either by importing gold and tendering to the currency offices, or taking gold from the currency offices and exporting it if the same is unfavourable. The Imperial Bank should interfere as little as possible with the exchange operations of trade, beyond looking after Government remittances. It may take delivery of the gold in London on currency account or give delivery of gold in London on currency account at gold point rates, and save freight charges when circumstances permit. There should be no secrecy or even partial secrecy (as at present) about Government remittances to London. The trade and finance of India depend a great deal on Government remittances to London for securing rupees in India, and secrecy in remittance operations is detrimental both to trade and finance. Partial secrecy has recently been practised but this should stop, and every morning the remittance operations of the previous day, and the total remittances to date, should be published in the Press.

24. *Question* 8.—Provision should be made by statute for securing greater elasticity in meeting seasonal demands for currency. At present the provision is for Rs. 12 crores, but this should be raised to Rs. 20 crores. With an automatic currency system which will follow with the fixing of the ratio between the rupee and gold, the demand for emergency seasonal currency will show a tendency to fall off, except when high money rates prevail in London. But ample provision should be made by law for all contingencies and Rs. 20 crores will cover all requirements for some years to come. But the figure will have to be raised from time to time as the trade of the country and its financial requirements expand. The emergency issue should be against *bona fide* trade bills and *bona fide* trade pro-notes (*i.e.*, pro-notes issued for the purpose of trade). The Imperial Bank should encourage the use of hundis, particularly amongst small traders, and should become a rediscounting bank, *i.e.*, discount the hundis of discounting banks. At present the Imperial Bank prefers to discount the hundis of shroffs who have been its principal customers in the past. But a step forward should be taken, and hundis endorsed by discounting banks should also be rediscounted by the Bank. This will help the Imperial Bank to have a large portfolio ready to be used against the issue of emergency currency.

25. *Question* 9.—No necessity will arise for the purchase of silver for many years to come if the gold standard is decided on and the further minting of rupees is stopped. But when necessary to purchase silver the same should be, as far as possible, by public tender in India and for delivery and payment in India.

APPENDIX 25.

Letter from the Secretary, the Millowners' Association, Bombay, to the Secretary, Royal Commission on Indian Currency and Finance, dated 7th December, 1925.

I am directed to acknowledge the receipt of your letter No. 1, dated 22nd September, 1925, and your further communication No. 47, dated 27th October, and in reply have the pleasure to submit the considered views of the Committee of the Bombay Millowners' Association regarding the Indian Currency problems.

In the opinion of my Committee the time has now arrived for a concerted attempt to be made to solve the currency problem of the country. They further consider that the two main essentials for the permanent solution of the Currency problems are :—

(*a*) The introduction of a true Gold Standard in India, with the value of the rupee fixed at a rate which will correspond with countries where currency has returned to its normal value. With the rupee exchange at the present rate 100 United States of America Gold Dollars are worth Rs. 272·4 as against Rs. 307·8 in January, 1914. From this it would seem that the present value of the rupee is far too high unless the Government of India are in a position to show that the United States of America has a depreciated currency.

(*b*) That the rupee exchange rate should not be liable to large fluctuations.

If the value of the rupee was fixed at 1*s*. 6*d*. gold my Committee believe that in the event of two successive failures of the monsoon it would be found impossible to maintain its parity. The present rupee-sterling exchange rate has only been possible because India has had four successive good monsoons. For these main reasons my Committee are convinced that it would be inadvisable to stabilise the rupee at a higher value at 1*s*. 4*d*. gold, a rate which it was found possible to maintain for more than twenty years previous to the War.

In connection with the subsidiary problems with which the Currency Commission is confronted, my Committee desire to make the following suggestions :—

(1) That the token value of the rupee in terms of gold should be fixed at a rate not higher than 1*s*. 4*d*. gold.

(2) That the English sovereign or an Indian coin of similar weight and fineness should be made legal tender in India.

(3) That Gold Certificates should be issued on the basis of Rs. 15 to the sovereign against gold held in reserve in India. My Committee consider that for the first few years after the country has gone over to a true Gold Standard, it will be necessary to build up an adequate Gold Reserve, and in order to prevent the possibility of any undue raid on the gold reserve during these years it should not be compulsory to make payment against Gold Certificates in gold coin. At the same time Government should declare that the ultimate object would be to meet all payments against gold certificates in gold currency.

(4) Subject to the issue of temporary emergency currency no further issues of rupee notes (in contra-distinction to gold certificates) should be made, and no further minting of silver rupees should be made.

(5) It should be the aim of Government to withdraw gradually the notes now issued against silver backing in not more than ten years, and to replace them with Gold Certificates. At the end of that time it will be necessary to decide the amount against which silver rupees should be accepted as legal tender.

(6) That the sale of Council Bills should be restricted to the actual needs of the Secretary of State for the financial year in which the sales are made.

(7) The control of the note issue should be handed over to the Imperial Bank of India with definite regulations regarding its expansion and contraction. The present method of control has led to suspicion, unfounded or otherwise, that the Government of India have been guilty of manipulations which might possibly have been to the benefit of Government revenues

but have adversely affected the interests of the great mass of the population of this country. By a transference of their powers, under definite rules, to the Imperial Bank, this suspicion would be removed.

(8) That the whole of the remittance operations of the Government of India should be entrusted to the Imperial Bank. These transactions are essentially Banking transactions, and should be conducted through the usual agency.

My Committee do not in their written evidence wish to dilate upon the suggestions they have made as this is more the function of financial experts, and can hardly be considered as the legitimate function of the Millowners' Association, but they desire to state more fully their views upon the essentials which they submit are necessary for the satisfactory solution of the Indian Currency problem, and the reasons why the Textile Industry of the country must support the demand for a 1*s.* 4*d.* gold.

The introduction of a true Gold Standard.—The present currency system is open to objection for the reason that it permits the value of the rupee to be raised or lowered practically at the will of the Finance Member of the Government of India, and my Committee believe that it is extremely desirable that the system should be changed for this, even if no other reason.

The only recognised International standard of value is Gold, and my Committee are unanimously of the opinion that the rupee, which by the very fact that it has a nominal value greater than its intrinsic value becomes a token coin, should possess a constant relation to the only universally recognised measure of value. The only way to achieve this, in the opinion of my Committee, is by the minting of gold coins in India and for the issue of Gold Certificates against *tenders of gold by the public.* A necessary corollary to the suggestion made by my Committee would be that " the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint," as recommended by the Fowler Committee.

Fixation of the value of the rupee at 1s. 4d. *Gold.*—As explained in the preceding paragraphs, the rupee is a token coin. This has been true since the time it ceased to circulate at the value of the silver contained in it. When it ceased so to circulate, a definite face value was given to it equivalent to 1*s.* 4*d.* Gold. In other words 15 token rupees became equal in value to £1 Gold, and in reality the English Sovereign became the standard of value whereby the value of India's products were reckoned.

For more than 20 years, the rupee circulated at this value and during that time contracts began to be made in terms of this token coin. The whole of the land assessments of the country were made upon this basis, and practically the whole of the rupee capital in Indian Industries was invested in machinery, buildings, etc., upon this basis.

It has been stated in responsible quarters that, if the rupee was fixed at 1*s.* 4*d.* Gold, it would constitute a hardship to those people who have entered contracts at 1*s.* 6*d.* My Committee maintain that this hardship is more or less a figment of the imagination, for until the end of March last year, when England's currency was restored to its pre-war parity with the Dollar, the rupee never had a value equal to 1*s.* 6*d.* Gold and as recently as September, 1924, had an equivalent gold value of under 1*s.* 4*d.*

My Committee realise that the present Finance Member of the Government of India has more or less advocated a policy which would give a token value to the Rupee higher than 1*s.* 4*d.* Gold, and has been able to support his policy by two successive prosperity Budgets. Most of his surplus, Sir Basil Blackett has stated, has been due to the high exchange value of the Rupee in terms of Sterling.

With this view, my Committee entirely disagree, and they maintain that even with the value of the rupee fixed at 1*s.* 4*d.* gold, there would have been equally big surpluses for reasons similar to those given by Mr. B. F. Madon in Chapter XII of Part II of his book on the Indian Exchange Problem.

It may be true that there has been a gain to Government under the matter of home charges, but this gain has been more than counterbalanced by the loss in rupee value of the exports of the country which has correspondingly reduced the amount which this country has been able to spend.

Effect of a 1s. 6d. *rate on the people of India generally.*—As is well known, the very great majority of the people of this country are agriculturists and their prosperity depends upon the prices received for the produce of their lands. As is almost equally well known, the prices which they receive depend upon the prices which the rest of the world is willing to pay for the surplus which is exported. These prices are very largely dependent on their International Gold value, and it necessarily follows that, if the Gold value of the rupee were fixed at 1*s.* 6*d.*, the number of rupees received by the Indian exporter would tend to be less than if the Gold value of the rupee were fixed at 1*s.* 4*d.*

As internal prices are also largely dependent upon the export prices, it also follows that the total number of rupees received by the agricultural population of India for their produce would be considerably less with the rupee fixed at 1*s.* 6*d.* than if fixed at 1*s.* 4*d.* gold.

Coming down to the individual, it will mean that, in spite of a smaller rupee income, he will have to pay the same number of rupees rent, the same number of rupees for land revenue, and the same, if not a higher, number of rupees as interest to the Sowcar. Thus the balance left over in rupees after paying all those fixed amounts will be reduced and the purchasing power of the general population correspondingly decreased.

Effect upon the Cotton Industry of India.—As explained in the preceding paragraph, with the rupee fixed at 1*s.* 6*d.* gold instead of 1*s.* 4*d.*, the general population of the country would have a smaller balance left over after paying interests, rent and land revenue, and this means that they would be unable to pay the prices for cloth which they could previously afford. This also means that not only will the demand for Indian mill-made cloth decrease, but that prices would have to be reduced to meet the decreased purchasing power of the general population.

The decrease in the price of the Indian mill-made cloth would, however, be made doubly certain owing to the fact that the price at which it is possible to import Japanese and other foreign cloth would be automatically reduced by 12½ per cent. or round about this figure.

Let us examine what this means to the Mills of Bombay, who are to-day faced with the problem of reducing the cost of cloth by 12½ per cent. and will continue to be faced with these difficulties if the rupee is kept at 1*s.* 6*d.* gold.

To reduce the price of cloth by 12½ per cent., the manufacturer has to reduce every one of his cost items by that percentage. In many cases this is impossible because the prices paid for labour cannot easily be reduced and the cost of power, depreciation, interest charges, rates, taxes and insurance will remain the same or be increased.

The net result of this is that, where the full force of foreign competition exists (Bombay) if the rupee is fixed at 1*s.* 6*d.* gold, many mills will eventually be forced into liquidation unless the import duty on cotton piecegoods were increased and even if the import duty were increased, it will not help the Textile Industry so much as would fixation of 1*s.* 4*d.* gold owing to the decreased demand for cloth caused by the lesser rupee income of the agricultural population.

So far mention has only been made on the effect which a 1*s.* 6*d.* rupee would have upon the home trade of the Bombay Cotton Mill Industry, but it should also be realised that it would have an equally severe effect upon the export trade because if the gold value of the rupee is made higher than has previously been the case, it means that the cost of producing a given quality of yarn or cloth in terms of gold, which is the standard by which world prices are measured, would be correspondingly increased.

If therefore, India found it unprofitable to attempt to build up an export trade when the rupee was equivalent to 1*s.* 4*d.* gold, it would be impossible to build up such a trade (which is becoming increasingly necessary without very substantial help from Government), if the value of the rupee was fixed at 1*s.* 6*d.* It has been stated by the Finance Minister that the increase in the sterling value of the rupee during recent years has been due to natural causes and that there has been no manipulation by Government, but my Committee are inclined to think that this statement cannot be borne out in view of the fact that there has been an insufficiently great increase in currency to meet the increased requirements of the industry and agriculture caused by the general high level of world prices and the increase in population. As long as the 2*s.* gold to the rupee ratio remains in the Coinage and Currency Acts of the country, the free importation of gold into

India will be retarded and there will be a tendency for the sterling value of the rupee to rise until it finally reaches the 2*s*. point since this 2*s*. ratio effectively prevents the importations of sovereigns into India for use as currency in as much as accordingly to the Currency and Coinage Acts, a sovereign is equivalent in value to Rs. 10 only.

Had the pre-war ratio of Rs. 15 to the sovereign been retained, gold would have flowed into India owing to the favourable balance of trade and would have been to a very large extent put into circulation as currency and would moreover have effectively maintained the value of the rupee at 1*s*. 4*d*.

APPENDIX 26.

Statement of evidence submitted by Dr. Balkrishna, M.A., Ph.D., F.S.S., etc., Principal, Rajaram College, Kolhapur.

RECOMMENDATIONS.

(1) The most effective measures to secure both stability in internal prices and foreign exchange is to introduce gold currency in the country, as the gold standard is comparatively the most stable standard.

(2) Internal stability is vastly more important than stability of exchange. The latter is most difficult to control. Government should give up its rôle of managing the unmanageable. Gold finds its own level. Like forces of nature it tends to flow from high places to low. Gold Standard is a self-regulating system.

(3) Decontrol the exchanges at once by dethroning the sovereign ruler of the Indian money machine. Emancipate India from the anachronous and unnatural supremacy of the Secretary of State. He ought not to be the dictator of currency policies when the country has been given fiscal and financial autonomy.

The exchange rate, if controlled at all, should be restored to 1*s*. 4*d*. and not fixed at 1*s*. 6*d*.

(4) Replace the manipulated and monopolised rates and remittances by automatic exchanges. Government remittances should be made through the Imperial Bank.

(5) The gold holdings in London should be transferred to India.

(6) Gold notes should be issued on the basis of gold, sovereigns and securities.

(7) A gold Mint be established at Bombay open only to the Government up to 31st March, 1928, and then to the public, too. No brassage should be charged.

(8) Gold sovereigns and gold notes be legal tender to an unlimited extent. Steps should be taken to encourage the use of both. Rupees and rupee notes should be legal tender up to Rs.1,000 at present.

(9) The Government should retire silver notes with gold notes. No fresh rupees should be coined till the Gold Standard has become an actuality. Rupee should be linked to the gold sovereign at the ratio of 15 to 1.

(10) The Gold Exchange Standard should be continued up to 31st March, 1928, with this modification that rupees and rupee notes be redeemable in gold notes and that gold be given for foreign remittances—the foreign exchange rate should not be fixed by the Government.

The working of this modified standard has been outlined below.

(11) Banking should be developed vigorously by a special programme and the cheque system should be popularized.

(12) The control of the note issue should not be transferred to the Imperial Bank. The masses have yet no confidence in banks.

(13) The constitution of the Imperial Bank should be improved in a manner to command universal confidence in its stability, honesty, usefulness and impartiality. Its powers should be carefully limited by such legislation as has been recommended by the Controller of Currency in America for Foreign and National Reserve Banks. (P. 11 of the Report, 1921.)

DOMESTIC TRADE VERSUS FOREIGN TRADE.

The comparative importance of stability in internal prices and in foreign exchanges can be measured by the ratio existing between the internal and external trades of a country. Professor Irving Fisher has followed a very exhaustive

method of calculating internal trade in his memorable work entitled the "Purchasing Power of Money." Unfortunately, we have no reliable or even approximate statistics regarding the amount of money and credit instruments, or regarding their velocities. Hence Fisher's method cannot be followed here. However, his conclusion regarding the relative importance of the two trades is full of significance :—

> "Probably few persons outside of statisticians would have imagined that our import and export trade, which has filled so large a place in our political vision, sinks into utter insignificance as compared with the internal trade of the country. The total exports and imports amount only to a paltry 3 billions as compared with a total national trade of 387 billions." (P. 306.)

Thus the exports and imports represent less than 1 *per cent. as much trade as the internal commerce of the United States.*

This calculation of domestic trade takes account of all turn-overs, while export and import figures count only once. On this basis the relation of our domestic trade to foreign trade may be surmised at 96 to 4 at the highest. *So the comparative stability of internal prices to foreign exchanges is in the ratio* 96 :4.

However, Mr. Anderson, the Economist of the Chase National Bank, has followed another method. He eliminates all turn-overs from domestic trade. "Trade" is not synonymous with "exchange" as it should be. His calculation is of some good in showing the true proportions in which labour and capital are engaged in supplying the domestic and foreign markets.

According to Findlay Shirras the *per capita* income in India was Rs. 50 in 1911. The population of the country in that year was 315 millions. Hence the total income was 315 × 50 million rupees.

Of this income of 15,750 million rupees in 1911, the country spent 1,385 million rupees on imports. The remainder of 14,365 million rupees represents the expenditure of the people on Indian goods and services in 1911. This figure of 14,365 million rupees is called the "domestic trade" of India for 1911. Indian exports in the same year totalled 2,218 million rupees. This figure is taken as representative of "foreign trade" for the purpose of comparison with the figure for "domestic trade." *The foreign trade of India in 1911 was thus 15 per cent. of the domestic trade of India.*

It is interesting to find that Mr. Anderson calculates the foreign trade of the United States in 1924 to be 14·5 per cent. of its domestic trade.

Thus the two percentages do not vary much from each other. This method is objectionable on account of the elimination of all turn-overs, which are of supreme importance in influencing prices, internal and external. But I have followed it to show that the ratio of foreign to domestic trade is as low as 4 : 96 or as high as 15 : 85. This means that statesmen should pay far greater attention to the stabilisation of internal prices than to the stabilisation of foreign exchanges. The former is at the least six times as important as the latter. Government's policy in the past has been solely dictated by the ideal of stability in foreign exchange, and it paid scant attention to the stability of internal prices. It is high time that this short-sighted policy be reversed. The questionnaire of this Commission, too, unfortunately lays stress upon the stabilisation of the rupee, and discloses the mind of the Government. The fixing of a ratio through the manipulations of the Finance Department should no more be thought of. It is a pity that colossal efforts should be made to maintain foreign exchange, which affects about 4 per cent. of the purchases, but no real anxiety has been shown to establish the currency system on a sound basis. While unlimited funds have been spent to buttress the exchange rates, no sound currency policy has still been evolved in spite of the investigations of four currency commissions within 30 years.

Internal stability or stabilisation of prices is supremely more important than stabilisation of exchanges or external stability. This does not mean that Government should be allowed to control internal prices or foreign exchanges. Government has done it with disastrous consequences to the country. The free and effective gold standard and uncontrolled currency can be relied upon more than Governments. We depend more upon the free play of the impersonal world forces than upon the dicta of a financial secretary to settle exchanges and prices.

The importing and exporting firms and all those sections of the people which are connected with export and import business do want stable exchange rates to avoid risks. Their demand for stability of exchange is unnatural and contrary to all experience of the world's import and export trade. However, the gold standard will give them what they want. The fluctuations of the rupee sterling exchange can be set right only by the adoption of the gold sterling in this country.

High or Low Exchange.

The rupee for some time past has remained at the level of 1*s.* 6*d.* There seems to be a demand in the country for lowering the exchange rate to 1*s.* 4*d.* Let us, therefore, see the *pros* and *cons* of a low and high rate of exchange.

Beneficial Effects of the New Rate of 1s. 6d.

At the present rate of 1*s.* 6*d.* we have to pay Rs. $13\frac{1}{3}$ for buying a pound sterling, but at the old rate of 1*s.* 4*d.*, we shall have to pay Rs. 15 for the same. Now what does this high exchange involve? It means—

(1) we are paying a lesser number of rupees in the shape of interest on and capital of our sterling debt.

(2) home charges are paid with a lesser number of rupees;

(3) the English capitalists who have employed their capital here, will be immensely benefited by getting more pounds sterling at 1*s.* 6*d.* than they would at 1*s.* 4*d.* per rupee;

(4) the civil and military classes will also be benefited in the same way;

(5) we pay less money for all imports of merchandise and stimulate imports by giving a substantial bounty to English and American manufacturers;

(6) we buy gold and silver at a cheaper rate;

(7) new sterling loans can also be raised with less burden;

(8) the burden on national finance is so much lessened. It ensures lighter taxation and gives more money for developments;

(9) the commercial undertakings of Government are discharged with a lesser amount of money;

(10) the prices of domestic manufactures, particularly those which compete with foreign markets, must be low;

(11) the low prices of manufactured goods have their effects by reason of the sympathy of markets on agricultural products. It means cheap foodstuffs, cheap clothing and luxuries. In other words, all the consumers, the people at large, both rich and poor, are universally benefited by this high exchange.

India with the rest of the world has been suffering from high prices since the war. This suffering will be relieved by fixing the exchange rate at 1*s.* 6*d.* per rupee. This is only one side of the picture. There is yet a different story for the producers.

Adverse Effects of the New Rate.

Falling prices cause depression in trade and industry, bring crises, bankruptcies, the closing down of firms and factories. This has been the result in India, as is visible by the crisis in the cotton industry and slump in coal mining.

The low prices discourage even new enterprise, because when the old houses are tottering, falling, and failing, no one dares to build new ones. The present depression in textile, coal, jute, and sugar industries bears it out.

The entrepreneurs and capitalists, discouraged by small or dwindling profits, contract their borrowings. Industries started when the general level of prices was high. suffer most by the fall in prices. Cotton imports from Japan will have a serious effect upon our greatest industry. Foreign manufacturers are definitely benefited at the expense of Indian manufacturers.

Hence interest falls. Cf. the low Bank rate at 5 per cent

Loans decrease. Cf. the contraction of credit and currency, and increase of cash balances in banks.

The business of banks suffers reduction. Deposits and velocities of money are lowered. These causes tend to reduce prices more. The vicious circle is begun. Depression in trade becomes universal. It extends to agriculture too. Incomes of all the people engaged in trade, agriculture, and industry decrease.

There is a fall in wages, and, therefore, the purchasing power of the labouring classes also is reduced. Compare the present strike in Bombay.

Reduced demand for goods means reduced production. The stimulation of imports also will have an adverse effect upon home industries, as is visible in these days. The high exchange has conferred a bounty upon our competitors for our industrial depression.

The agriculturists suffer not only by obtaining less for their produce, but have to sell more produce to get the same number of rupees to pay off their debts and interest thereon. These same agriculturists have to pay fixed taxes to the Government. They suffer by the appreciation of the rupee. They form 70 per cent. of the population and they are poor. What must be the consequences of increasing the burdens of their liabilities?

The non-agricultural debtors suffer no less from the appreciation of the rupee.

Now a few crores gained by paying less home charges and less in imports are most dearly gained by the misery universally inflicted upon all producers and debtors, and by increasing the burden of taxation.

Cheap imports do not much benefit the agricultural classes, as they do not use any appreciable amount. Their losses as producers, tax-payers, and debtors are in no way offset by cheap imports.

The importing firms might suffer a little, but they are shrewd enough to cover their loses. The losses of producers and exporters by the rise in exchange rates are simply staggering.

Take the annual value of agricultural produce to be Rs. 3,000 crores. Ten per cent. appreciation of the rupee means 10 per cent. fall in general prices. The value of all the stocks and the new produce is reduced by Rs. 300 crores.

(Professor K. T. Shah calculates the value of produce to be 2,187. The value of stocks held by the people may be put at 813 crores.)

The losses of imports may at the time of the change amount to a paltry sum of two or three crores only.

Exports have a tendency to fall. A fall in the quantity of goods exported lowers prices of these goods in India. The growers of commercial crops specially suffer losses. Jute, tea, hides, and skins feel the effect of foreign competition. The rising exchange is having such adverse effects upon the above-named exports. The silver-using countries will have an advantage over India on account of a high exchange.

This high exchange will set up an agitation for levying increased protective duties on imported manufactured goods. It will be very difficult to suppress such a demand. A vociferous section of Indian politicians interpret this high exchange as a stimulus to British industries which are now suffering from an extraordinary slump.

Hence, manufacturers, artisans, wage-earners, agriculturists suffer by the fall in prices. Reduced production, reduced consumption, reduced incomes mean reduced taxation.

Thus neither the people-manufacturers, importers, agriculturists, labourers, nor even the Government ultimately will be gainers by fixing the rate at 1*s*. 6*d*. per rupee.

Effects of Restoring the Rate to 1s. 4d.

The fixing of this low rate means that we will have to pay Rs. 15 instead of Rs. 13⅓, as we do now for a pound sterling. The rupee will depreciate in terms of sterling. It means that all the beneficial effects of the high rate shown above will not be derived by the Government, the English settlers, the English civil and military classes. The people at large will suffer by high prices. The finances of the Government will be tightened. More money will have to be found out by new taxation or loans. There will probably be deficits in budget, though the income from railways, opium, salt, customs, income-tax, excise will have a pick-up. Lowering the rate to 1*s*. 4*d*. means 12½ per cent. depreciation of the rupee, and it will involve a rise in prices to the same extent. It will be tantamount to increasing the import duty on all goods brought into the country by 12½ per cent. or giving a bounty to all indigenous industries. Low exchange will stimulate exports, while

high exchange stimulates imports. The English manufacturers will suffer loss by the reduction of imports to India, as well as from the capture by India of some American and Asiatic markets with her manufactured goods.

We must frankly admit that all these evils will follow in the wake of restoring the exchange rate to 1*s*. 4*d*.

But we must also see with an unbiassed mind the advantages of fixing the rupee at this ratio.

The depreciation of a rupee means a rise in prices. Rising prices stimulate production, favour enterprise, cause a rise in wages, and serve to bring optimism in trade and industry.

Producers and manufacturers all feel gratified, and look to a further rise as the sign of the healthy organisation of the economic life of the nation. It was for this reason that the " Green Backers " in the U.S. agitated for the maintenance of the Greenbacks, or that there is a party in the Argentine Republic to maintain paper money, or that the sudden contraction of money on the continent is so much dreaded.

The falling rupee is favourable to debtors, because they can easily pay off their debts by paying money of less value. India as a debtor nation will be benefited.

Joint stock companies are floated and private business, too, receives a stimulus.

Wages rise all round.

Banks increase their business.

Deposits and velocities of money increase.

The rate of interest will rise, and capitalists will be benefitted.

Entrepreneurs, encouraged by large profits, will expand their business, and go in for new industries.

Agriculture gains most. The raw material of all manufactures is bought at higher prices. Similarly, foodstuffs rise in value. As 80 per cent. of the people in this country live upon agriculture, a rise in prices confers the greatest advantage on the rural population.

The producing power of the nation increases, and thus it not only neutralises the effect of high prices, but enhances production.

The interests of the agriculturists are thus in no way sacrificed to those of the importers or financiers and millowners of Bombay and Calcutta.

Expansion in business, acceleration in industry, stimulation of agricultural industries, prosperity in the nation, cheerfulness, buoyancy, optimism, more taxation, more revenue are the characteristics of the restoration of the rate.

People bought sovereigns at the rate of Rs. 15 each. The high exchange ratio will give them only Rs. 13⅓ for each. They will not consequently bring them out. The 2*s*. ratio drove out sovereigns from circulation and this 1*s*. 6*d*. ratio will serve the same purpose.

Greater production, higher wages, higher profits, higher interest, more banking business, more mills and factories, more optimistic and jubilant industrial world bring in more revenue to Government and hence the adverse effects pointed out above, will not be in evidence on National Finance.

The cessation of coinage of rupees will reduce the demand for silver, the adoption of gold as currency will further reduce the price of silver, and send up the price of gold, it will then be difficult to maintain the present rate of 1*s*. 6*d*. This will probably hover about 1*s*. 4*d*.

The high exchange will depreciate our present holdings of sterling securities. There is a demand for bringing back the Reserves from London in the shape of gold to withdraw paper and rupee currency and circulate gold. 73·5 million sterling at 1*s*. 6*d*. will redeem 98 crores of rupee notes, while at 1*s*. 4*d*. the amount of redeemed notes will go up to 110 crores. It is evident that both the Government and the country will gain by the low exchange.

There is a universal apprehension among the educated classes that the Government desire to peg the rupee at 1*s*. 6*d*. sterling and are manipulating the rates by their usual mysterious ways. Let me hope that these apprehensions are unfounded and that the Commission will recommend complete non-interference in foreign exchange rates and the adoption of 15 Rs. to one sovereign for internal purposes only.

No Foreign Exchange Rate.

Questions 2 *and* 3.—I stand for no control of foreign exchange rate and no stabilisation. Let it be free, open and automatic. No controlling dams should be raised up by the Government. The great desideratum is a natural rate of exchange.

Under the gold standard regime there is no necessity of fixing any exchange rate. All trade, internal and external, will be done on a gold basis. Even under the Gold Exchange Standard in England the British Government does not fix exchange rates.

For the last thirty years or so the Indian Government has been tossed between the Scylla of Exchange Standard and Charybdis of Exchange Rates. It is strange that the frequent shipwrecks and the consequent misery inflicted upon itself as well as the people have not yet taught it to get the ship of finance out of these uncontrollable whirlpools. It is still harping upon the same old tune of fixing rates, stabilising the rupee, the means to maintain equilibrium and stability in the unstable seasaw of exchange. Our Finance Department with a doggedness that is characteristic of an Englishman, though often submerged in the tempestuous tide, feels delight in controlling the eternal ebb and flow of exchange. It has so long played ducks and drakes with its reserves and the fortunes of the people. Sufficient has been the evil of this meddling intervention and interference.

It is a hopeless task for a government to bring stability in unstable things. It is to command the sea to go so far and no further. It is to defy the laws of supply and demand. It is to ignore the psychological effects on prices. Just as no government will dare continue for a long period in normal times to fix prices of commodities and take effective policing steps to maintain those prices, so government ought not to fix and be responsible for maintaining the exchange rates of gold and silver.

No modern government except the Indian Government has tried that mad and expensive experiment. The Indian Government by undertaking to maintain the exchange rates has cost this country untold misery. Hundreds of millions have been extorted from the pockets of the people in subtle ways.

An alien government to be on the safe side ought not to have any concern with exchange rates. Already the phrase of "Satanic government" has become universal. A hundred bad names are being given to the government. The people are now wide awake to their interests. They are not dumb now as they were in the past. The Press, the Platform and Parliament are being strenuously utilised for throwing mud on the government. Every action of the government, however noble it may be, is misunderstood and misrepresented by a certain vociferous section of the people.

The people rightly mistrust the government and doubt its motives. If it has not to gain anything, why should it be so solicitous in fixing rates and controlling the currency policy. The Secretary of State cannot be said to be free from influences detrimental to the interests of India. He works in secret and is amenable to London financial interests.

India can now be held by England on the basis of equality and not of dependency. British financial interests must not dictate what is good for us. Let the people decide the complicated issues of their currency question.

Government should boldly wash off their hands from this muddling jumble of varying rates and vacillating currency policies. Let the people suffer by their mistakes. Just as the Government gave up intervention in checking plague in Bombay at its out-burst and for the last one generation the whole country is suffering from its ravages, so let it now give up its interference in currency even though the people may have to suffer more severely from their mistaken policy.

Why should the Government be so anxious here to fix Exchange rates in India to protect the interests of English bureaucracy and capitalists? Are they not strong enough to protect their interests here as elsewhere? The tentacles of British capital are spread far and wide. The British capitalists all over the world are subject to varying rates of exchange, with their mother country, why should they have any guarantees in India only?

The civil and military services are already paid fat salaries. They are expected to spend their savings and pensions here and not out of India. If they prefer to spend them outside, let them take the chance of remitting their fortunes

at the market rates. To ask India to guarantee exchange rates for them is to add insult to injury.

Government purchases. Government has to send the money for their purchases made for commercial purposes. In this respect the Government is an *entrepreneur* like the Tatas and others. If thousands of private traders and industrialists here as in China and all other countries have to depend upon varying rates, why should not the Government depend upon the same? The German and Russian Governments with their convulsive ups and downs in exchanges are doing the same kinds and even more sorts of business. Have they fixed any exchange rate? If not, why should the Indian Government resort to this meddlesome policy?

Although England has now the Gold Exchange Standard, no foreign exchange rates have been fixed by the Government. These rates are varying from day to day in obedience to certain laws.

Why then a foreign exchange rate should be fixed in India even under the Gold Exchange Standard? All prices should be expressed in sterling. Sterling notes should be issued here too. The rupee should approximately be relegated to the position of a shilling and rupee notes be in the position of sterling notes of small denominations.

If in England the ratio between a sovereign and shilling is not being changed, why should frequent changes be proposed between the rupee and pound here? Let the rupee as token coin remain pegged to sovereign at the ratio of 15 to 1 for internal trade.

For the last three years the Government has allowed the rate to be fixed by the Banks or the market conditions. Let the same policy be followed in the future. All classes will get accustomed to this sort of free play of exchange. My advice to the Government is: "Hands off the Foreign Exchange Rates. Allow the streams of gold and silver to run freely, without impediments in and out of the country." The Government must completely divest itself from the management of exchange and the manipulation of currency. Exchanges will be adjusted to their natural level and comparative stability will soon be brought about by natural causes. Not stability of exchange, but stability of internal currency system should be the guiding principle of Government's policy. With due respect to the Commission and Government, it seems to me to be a wild goose chase to fix any definite, stable and workable exchange rate.

Home Charges and certainty of Budgets.

The gravest objection to the varying rates is the uncertainty brought in the budgets. Government has to pay about 30 million pounds per year. It cannot forestall the rates at which money has to be remitted to England. This difficulty does not arise in a pure gold standard with gold or sterling notes in circulation, nor is it grave enough in a gold exchange standard with no gold in circulation, but with gold alone as legal tender to an unlimited amount.

Rupees as Limited Legal Tender.

Question 4.—I believe that we cannot forthwith adopt a perfect gold standard in India. The Rupee shall, for many years to come, remain the general medium of exchange. My reasons for this view are the following:—

(1) The banking system is still in its infancy in India. The use of cheques is practically unknown except in a few large cities. The cheque system is not in use in more than one per cent. of the population. Only cities with a population of 100,000 and over are learning the use of the cheque. Even there it is limited to a few upper class people.

Even all these scarcely use the cheque system in about half of their dealings.

Thus metallic currency is a *sine qua non* of the economic organisation of India.

(2) Though the note circulation has of late years increased by leaps and bounds, yet it cannot fully take the place of the Rupee.

(3) The people of India are used to the Rupee for the last several centuries. The demonetisation of silver will not be liked by them.

(4) Metal tokens are more convenient to handle than pieces of paper. The peasants cannot accept the latter during rains, nor can they keep

them away in their thatched and mud huts where they will be eaten by ants, spoiled by damp or reduced to ashes by fire.

(5) Paper promissory notes are more liable to forgery than metallic tokens. The illiterate people are consequently afraid of accepting paper.

(6) The masses do not have much confidence in Government notes. Moreover, notes are inconvenient for the masses. Hence rupees ought to form a large portion of the currency circulation.

(7) Demonetisation, by reducing the price of silver, will reduce the value of the hoardings and ornaments. But the maintenance of the rupee as legal tender up to, say, Rs. 1,000 will not have such adverse effects.

(8) The masses, on account of their poverty, require a cheap coin for the internal transactions of the country. Gold cannot become a medium of exchange for ordinary purposes.

The total number of assessees to the Income Tax in all the provinces of India in 1922-23 was stated to be 238,242. These persons belong to non-agricultural occupations. The majority of small land-holders, peasants and tenants have incomes far below the limits of the Income Tax. From among 30 per cent. of the non-agricultural population we have 238,242 persons enjoying an income of about £11 per month or more. At the same rate the agricultural population will have 555,898 persons with a monthly income of £11 or more. Hence the total number of persons with a monthly income of £11 can be approximately 800,000.

It is evident that many gold sovereigns cannot be used by these comparatively few rich people.

The preceding reasons may be construed as showing that gold currency is not needed in India. These rather lead us to another conclusion and it is this. Much gold currency will not be required and therefore the apprehension of some Englishmen that streams of gold will disappear underneath or that there will be a huge waste by having gold in circulation is ill-founded.

(9) Coining of silver will have to be stopped for some years to come. The initiation of the gold standard and currency, the depreciation of the rupee and the probability of a continuous fall in the price of silver will have a serious effect on the mentality of the people. There will be a sudden release of rupees from the hoards, if gold were available in exchange for them. Hence, steps have to be taken to check this rush and to increase our gold stock. This can be done by issuing sterling notes. These should be issued at an early date.

To sum up, for the reasons detailed above the rupee in India cannot be fully reduced to the position of the shilling in England. It shall always form a very important medium of currency. Gold can never find its way to any large extent in general circulation. Nor is it desirable that such a costly medium be used as popular currency.

THE NEW GOLD EXCHANGE STANDARD.

Hence rupees shall remain legal tender up to a limited amount. I propose the limit to be one thousand rupees. Rupee notes will be placed on the same footing.

For some years to come the minting of rupees and the issue of rupee currency notes should be stopped till the time when the proportion of gold and sterling notes in the currency is found adequate for the requirements of the public. Rupees should be given in exchange for gold and sterling notes at the fixed ratio, but not gold for rupees up to 31st March, 1928.

Up to that date Gold Exchange of the type adopted in England should be put in operation. Gold should be tendered, when demanded, for rupees and sterling for *bona fide* foreign remittances, and rupees should be given for gold.

Rupees shall be equivalent to gold for internal purposes, but they shall not be convertible into gold but into gold and silver notes only. Their position should be similar to that of the silver coins of France and the United States, or shillings at the present time in England. The varying price of the rupee in the market will drive out gold from circulation. Till the return of normal conditions gold notes alone should circulate side by side with rupee notes.

Before pointing out the modifications in the Gold Exchange Standard system prevalent in India, I will briefly state the salient features of the new system adopted by England.

Gold Exchange Standard in England.

(1) Mints are closed to the public but open to the Bank of England only. Gold bullion can be offered in unlimited quantities to the Bank which is to buy it at the rate £3 17s. 9d. per standard ounce.

(2) The Bank is relieved of the obligation to pay its notes in legal coin.

(3) Holders of Bank and currency notes and sovereigns are entitled to demand, at the head office of the Bank, *gold bars* containing approximately 400 ounces troy of fine gold, or £1,699 11*s.* 8*d.* per 400 ounces.

(4) The export of gold is not prohibited.

(5) Sovereigns and half-sovereigns are legal tender, though they can no longer be obtained on demand in exchange for Bank and currency notes.

(6) The issue of uncovered currency notes is not limited by any Parliamentary Statute, but by a Treasury Minute.

The Interim Scheme.

My tentative scheme for the transition period is outlined below:—

(1) Mints shall remain closed to the public for the free coinage of both rupees and sovereigns in India up to 31st March, 1928. They shall be open to the Government only for the minting of sovereigns alone.

(2) Rupees and rupee notes shall remain legal tenders up to Rs. 1,000 only. Sovereigns, half-sovereigns, sterling notes shall be full legal tender for all sums.

(3) Gold bullion will be freely acceptable to the Government in exchange for rupee and sterling notes and rupees for these two years at rates announced by the Government from time to time.

(4) The Government is not bound to pay gold sovereigns in exchange for notes, bullion, rupees or subsidiary money during the interim.

(5) Gold for export can be obtained at Government treasuries in Calcutta, Madras, Bombay, Karachi and Delhi in exchange for legal tender sterling notes in quantities of not less than 200 ounces as bullion or its equivalent in sovereigns or half-sovereigns.

(6) The export of gold by the public for purposes of international trade or by the Government is allowed in unlimited quantities.

(7) The Government shall not coin any more rupees, but shall increase sterling note circulation by putting gold for the notes issued during the interim and after.

(8) Gold shall be bought by open tenders in Bombay, Calcutta, etc.

(9) Silver in the currency reserve shall not be disposed of, but shall be kept for coining rupees after the interim.

(10) The strengthening of the gold reserve in the Paper Currency Department by the liquification of all securities. This gold to be, of course, kept in India.

(11) The transfer of the Reserves in London to India in the shape of gold.

Location of the Gold Standard Reserve.

Reasons for the location of the gold reserve in London may be stated as below:—

I.—(*a*) It is required only for the settlement of foreign indebtedness. Instead of shipping gold at the needed hour it is better to have it in London to meet demand there.

(*b*) Freight and insurance charges of the shipment of gold from and to London are saved.

(*c*) The holding of gold in India cannot be in securities, and this entails a serious loss of interest.

(*d*) Delay of about three weeks will occur in the arrival of gold to London, and this means a great disadvantage in critical times.

(*e*) Gold held in India will probably be used in currency and thus will disappear among the people.

II. London, being the financial centre for the settlement of international indebtedness, is the safest and most convenient place for the payment of gold.

III. Gold placed in London will strengthen the financial stability of London, the great central reserve of the Empire. Withdrawal of gold from London means weakening of the financial heart of the Empire and even of the world.

IV. After the war the financial strength of London has been much reduced. Removal of the gold Reserves from London will still more weaken its position.

V. Just as there are transfers of money from one treasury to another in the Indian Empire and Government has adequate funds in each treasury to meet such demands, it is necessary that there be one such treasury in London for the transfer of funds there.

VI. The Philippine Government, too, has a Gold Standard Reserve in New York to meet the adverse balance of trade.

OBJECTIONS TO THE LOCATION OF GOLD RESERVE IN LONDON.

I. If every act of the Government was not looked upon with suspicion and mistrust, if the past policy of the Government had not afforded cogent reasons for miapprehension, if the Gold Reserve Funds had not been dissipated by objectionable methods, there would have been not many objections to their location in London.

II. But funds piled with considerable sacrifices have been frittered away. The introduction of the pledged gold standard has been jeopardised. The reserves are not kept in liquid money, but are diverted from Indian trade and industry to assist the English trade.

III. There is always a free and unfettered flow of gold among gold standard countries. Why should not the same case hold good with a gold standard in India and immense balances in its favour?

The following table will reveal the favourable and unfavourable balances for 40 years:—

Average of years ending	*Thousands sterling.* *Fav.*	*Unfav.*
1883-1884	707	—
1888-1889	—	453
1893-1894	360	—
1898-1899	1,153	—
1903-1904	1,386	—
1908-1909	—	1,188
1913-1914	—	285
1918-1919	23,578	—
1923-1924	262	—

(Shiras's "Indian Finance," p. 442.)

It is clear that there are few occasions for adverse balances, and these, too, are not serious. With gold in circulation it will be as easy for us to meet our liabilities as it is for other countries to part with their gold for us.

IV. One of the objects of holding gold in London is to purchase silver. But if gold and silver are to be bought in Bombay by open tender instead of the secret and suspicious methods of the Secretary of State, the necessity of locating the funds vanishes away. Moreover, on account of the introduction of gold and stoppage of coining rupees we will not require any more silver for several years. The rulers of India should not ride roughshod over the sentiments of their subjects. Indian opinion is unanimous on the point that no reserves should be kept in London.

V. The reserves have been frittered away in buying Treasury notes and securities. The London financial world to that extent has been assisted while Indian industries have been starved. The composition of the reserves will be manifest from the following table:—

(*In Millions of Pounds.*)

Year.	*Gold in two reserves.*	*Securities.*	*Total Balances.*
1913-14	10½	20½	39
15	6	16	30
16	14	23	44
17	10½	51	67
18	6½	83	100
19	6	92	106
20	2	82	92
21	Practically none.	47	55
22	"	45	54
23	"	46	56
24	"	54	64
25	"	60	74

There is no gold in the two reserves. Every pound has been locked up in securities to finance British trade. These should be slowly sold off, and the proceeds should be brought to India in the shape of gold. Seventy million pounds of gold in circulation in India will do an incalculable good to trade and industry here.

VI. India has been a creditor country, and it shall remain so as far ahead as we can see. It is her natural birthright to demand gold in payment of her debts. No nation has the right to refuse to India the gold that is her due. The balance of trade in the quinquennium 1909-1913 was Rs. 391, and in the next five years of war it was no less than Rs. 381 crores. Even during the succeeding quinquennium, in spite of large adverse balances, the balance in favour of India amounted to Rs. 262 crores. The world owes so much money to India, and we can claim its payment in the form of gold. The Government, however, stood in the way of India during the War, refused to import gold here, strengthened the London reserves, and thus did lasting injury to India. Even the right note struck by the Chamberlain Commission was ignored in the din of war. (P. 129.)

VII. It is strange that England should prohibit or restrict the import of gold into India. England, by reason of the home charges and greater imports to India, is a creditor country. About 71 crores of rupees' worth of gold was every year transferred from our debtors to London. Still about four crores were left to be annually transmitted from other countries. It is self-evident that London has no right to restrict the export of this amount of gold, but even this gold due from other nations to India is by overt and covert means intercepted by England. Thus India has to pay the price of her political bondage to the master of her purse and destiny. During the War this glaring injustice was done to India. Our trade balances, with different regions during the triennium of 1911-1913, are given below to show the amounts due to us from various countries:—

(In Thousand Rupees.)

	Exports to	*Imports from*	*Excess of Exports over Imports.*
United Kingdom	1,756,473	3,054,776	1,298,303
Europe	2,322,270	741,872	1,579,398
Africa	197,179	107,436	89,134
America	742,954	153,017	589,937
Asia	1,932,142	740,416	191.726
Australia	122,681	29,698	92,983
	7,073,690	4,828,215	1,244,875

Thus during the three years we paid gold worth 130 crores of rupees to England for excess in imports, met our sterling liabilities to India Office from 124 crores and could bring the balance in precious metals. We carry gold to England by various ways and not drain it.

Use of Gold as Currency.

I need not lay stress upon the theoretical merits of the gold standard. It is universally accepted in international payments, and obviates oscillations in foreign exchanges; it is the best prop for exchange; it imparts comparative stability to prices over time and space; it is automatic in its operation and does away with managed currencies. All these advantages will accrue to India by linking herself with gold standard countries. Moreover, the country will get rid of the autocratic practice of constantly minting unlimited supplies of inconvertible token currency. Prestige, progress and prosperity are the landmarks of a gold currency; it secures the same international price level and does away with large gold movements. For these reasons all peoples have confidence in a free and effective gold currency.

The ever-expanding token currency drives gold sovereigns out of circulation, and thus deprives the latter of their very function for which they were coined.

The educated classes in India are so fully convinced of these great advantages of a gold standard with gold in circulation that they will not accept any other currency. The case for a gold currency does not depend upon these general arguments only, but also upon several other important ones, such as the following:—

(1) The flow of capital from England, British Dominions and other gold standard countries to India will be stimulated with rising import duties upon foreign goods brought into India. Foreign capitalists will be tempted more and more to start industries in this country.

(2) State-managed exchange rates will give place to automatic exchanges. A similarity of standards and a stable exchange will attract large amounts of foreign capital to this country. Indian industries are starving from a lack of capital, though there is an urgent and extensive need for the investment of fresh capital in the development of natural resources of India.

The first maxim of attracting foreign capital is that it should be able to flow out of the country without a depreciation. This can satisfactorily be effected through a gold currency.

(3) International trade is very injuriously affected by violent and capricious fluctuations, due to rates managed by governments. War experience has proved to the hilt that the control of currency is liable to the gravest possible abuses. Manipulated currencies have caused havoc throughout Europe, and if in India the results are not so serious it does not mean that discretionary authority of the Finance Department should be allowed to be continued any longer.

The Indian Government should give up its rôle of acting as the biggest exchange bank for the settlement of India's international indebtedness.

The fall in the value of gold has led to a considerable rise in the prices of commodities. The depreciation of gold is mainly due to less demand in Europe, in industries and currency, and probably to more production. India has imported an enormous quantity in 1924 as compared with any previous year, as is evident from these figures :—

	Crores.
Average of pre-war five years ending 1913-14 ...	28·86
Average of five war years ending 1918-19	7·81
Average of five years ending 1923-24	13·93
1923-24	29·19
1924-25	73·78

If, in spite of such an extraordinary absorption, the wholesale prices of the world have gone up, the rise would have been still more rapid if so much gold will not have been brought to this country. The adoption of gold standard here will benefit the European world.

Suppose gold currency is not adopted in India the demand for gold will be lessened here. The yellow metal will fall more in price. This fall will entail further rise in prices. Demand for gold in India and elsewhere will arrest this rise.

The import of 102 crores worth gold will be turned to industrial uses only if gold standard is not adopted. It will seek private hoards. Gold currency will keep it in the market, and thus make it available for international payments.

(4) Our trade of late with foreign or non-Empire countries has been increasing fast. The interest of that trade should not be sacrificed to that of English trade.

(5) England has not much gold to part with. America and Japan have a plethora of gold for the present. Our exports to these countries should be increased to obtain gold for our currency and industrial uses. The currencies of European countries are now linked to dollar rather than sterling. The latter is itself at the mercy of New York.

The linking of our rupee to the depreciated sterling will be subject to two variants—the sterling and dollar. It will be impossible to maintain parity of exchange without serious losses to the Government.

(6) We can raise loans in the American market on easier terms than in that of London. An automatic gold standard will place us on equal and certain terms with that country.

(7) Silver, too, is to a large extent obtained from America. An automatic currency will mean the free and unfettered flow of the precious metals. The white and yellow streams will constantly pour forth their contents to enrich the Indian soil.

(8) The Government will be saved losses in exchange. The colossal amount of Rs. 55 crores lost in the so-called " organised loot " of 1920 is the most notorious example on the point.

Mr. Probyn has calculated that the people of India lost £43 million during 1873 to 1893 by buying depreciating silver whose price was buoyed up by artificial means by the Government (Indian Coinage and Currency, p. 51).

The Indian taxpayer will have been saved much of the exchange loss up till now, if automatic currency system would have existed in place of guaranteed and managed system or if gold standard had been adopted in the 'eighties.

No other Government, even in the disorganised condition of Europe, has undertaken to cover the losses of exchange of its exporters and importers. When the policy stands condemned, even in abnormal times, how can it be justified under normal conditions in this country?

(9) India is a creditor country. With very few exceptions from 1870 onwards every year India has been receiving gold and silver in payment of her net exports. When silver money will be restricted, that metal will not be required for currency purposes and hence silver imports will be curtailed and gold imports will be increased for the payment of our net exports.

This will swell the gold reserve that will be required for an automatic gold standard.

(10) The output of gold in India though small has been, except for a very short period, going out of the country.

By minting gold in India we will utilise our own production and all the hoarded stocks too will come out.

The Herschel Committee, too, admitted that much of the uncoined gold in India, which must be very considerable, would be brought to the mints if a gold coinage were introduced on a proper basis. (p. 28.)

(11) I think prices in India were, to a large extent, governed by silver rupees, and controlled to a small extent by gold. Their action is either compensatory or aggravates the situation in one way or another. It is better to be pegged to the world prices by adopting the pure gold standard. The Indian prices being subject to the two influences cannot be compared with either the gold using or silver using countries. The true action of this hybrid system of gold exchange standard cannot be statistically expressed.*

(12) The gold standard alone will permanently solve the problem of exchange. The country will not have to pay increased salaries to the civil and military services for losses in exchange. The Government, merchants, importers, exporters, and so the civil servants, will have to depend upon the market rates.

(13) With gold as standard and currency, much of the silver kept in the currency department will be displaced by gold. It is feared that gold will be more easily concealed and hoarded for some time to come. There is a gold hunger amongst the people and until it is satisfied to an appreciable extent, hoarding will continue. Its use in ornaments will also increase on account of high price of silver and low price of gold. I maintain that there is no hoarding and there shall be no hoarding. Hoarding always proceeds from the fear that gold will not be available when demanded. With gold in circulation no grounds of such fear will exist and hence people will not resort to hiding gold.

It is a legitimate need and the Western countries ought not to look with apprehension, consternation, or alarm on the use of gold by India. She has a right to one-fifth of the annual output of the world.

It should be remembered that hoarding can take place even under the gold exchange standard.

On the other hand, we should not ignore the remarkable fact that a gold currency will draw out hoards of gold. The so-called hidden hoards will be put in active circulation. The considered opinion of the Fowler Committee on this point is worthy of note:—

"As regards the hoarding difficulty in India, we are not satisfied that the danger therefrom is so great as has been suggested. There is a little or no likelihood, even according to the most sanguine view, that for a time to come gold coins even if declared a legal tender forthwith, would find their way to any great extent into general circulation.

* *Cf.* the remark of the Herschel Committee:—

"As long as the Indian Mint is open, the measure of value is the market value of the weight of silver contained in the rupee, but as soon as the mint is closed we can no longer be sure that this will be the case. Further so soon as the rupee has risen to the given ratio, the fraction of an English gold sovereign represented by 1s. 4d. will become the measure of value. This is in itself a most important change," (p. 40).

"If hoarding did not render a gold circulation an impossibility in the past, we look for no such result in the future.

"Consequently, we are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of gold standard, namely, a gold currency."

People are taking more and more to banking habits. Special efforts should be made to develop banking on sound lines. Instead of keeping gold with themselves and losing interest thereon, they will part with it to the mints and banks. India requires a well-established and strong banking system. The use of cheques and notes will do away with metallic money to a large extent.

(14) The introduction of gold standard in India would tend to enhance the price of gold. This appreciation of gold means depreciation of commodities, or falling prices of goods, with all the consequences of a slump in manufactures. Moreover, the British and European taxpayers will not obtain the relief that the falling price of gold is affording them. Every fall in the purchasing power of gold lightens the gigantic burden of debts due to America and England by European countries or by England to America. If the price continues to be the same for a year or two more, at least 25 per cent. burden of debts and interest will be cancelled.

Hence British and European nations are interested in keeping the price of gold at a low level. They will not like that India should monetise gold and thus raise its price.

The bankrupt nations of Europe and debt-ridden Britishers are forging philosophies on the ideal benefits of gold exchange standard. England herself has adopted the same system, and it is unlikely that in her present distress she will allow India to have gold standard.

(15) But the other side of the picture has to be seen. The use of gold as currency in India will arrest its downward tendency and thus arrest the growing rise in prices which is causing so much misery to various classes all the world over.

The value of gold in spite of its large use in currencies and its widespread use in industrial arts has been falling.

Its value is likely to fall still more due to—

(a) its curtailed use in currencies on account of the adoption of gold exchange standard by England and other countries;

(b) the spread of the habit of using more and more bank cheque and and currency; and

(c) the reduced demand in industrial arts by reason of the less purchasing power of the European countries.

Consequently, the introduction of a gold currency in India by arresting the fall in the price of gold will do a real good to the whole world.

(16) Gold standard will not be much more wasteful in India than in France or Italy. The cheque system is not so much developed there as in England and America.

Gold Exchange Standard has not been successful in times of stringency to maintain the exchange rate. It defeated its own purpose. Gold saved with so much care for years was drained away in the course of a few months. Gold accumulations are no guarantee for stable exchange.

(17) How long can unconstitutional Czarism in finance be permitted under democratic Governments? How can the wisdom of two or three Financial Secretaries, even if they were adamentive to the influences of the Downing Street and Threadneedle Street be said to compare with the free, automatic play of economic forces working through the open competitive markets? Secret manipulations of our currency rates by the Finance Department must paralyse and pervert the freedom and flexibility of our economic and industrial system. Even with honest motives and profound zeal for the public good, no single brain can master, control, and guide the intricate machinery.

Government should not trample under foot the sentiments of the people. They believe in gold to be the only sound money. For 30 years Government has been loud in its professions of establishing an effective gold standard, but always

doing just the contrary actions. People have lost all faith in the Government policy. When the most vital interests depend upon currency, the latter should be established according to the pronounced wishes of the people, otherwise the political consequences of discontent and agitation will be disastrous.

I cannot understand the mentality of the Government. It is forgotten that Democracy in politics is wedded to democracy in finance.

Objections to a gold currency in India were ably disposed of by Sir J. Begbie, and I need not recapitulate them here.

But I cannot pass over the huge misconception of India being a bottomless sink wherein gold and silver streams constantly discharge their precious contents but find no outlet.

It ought to be remembered that India is in no way an exception in the attraction of either gold or silver to its stores. During the last half of the 19th century India has been kept starving in its currency. Very little more silver was imported into India than was needed for its currency purposes. Similarly, the amount of gold absorbed was exceptionally insignificant. (*See* Note on Absorption of Gold and Silver.)

Remittance Operations of the Government of India.

Evils of Manipulated Exchanges.

The sale of Council Bills is one of the best and easiest methods of remitting money to England for the requirements of trade and the Secretary of State, and releasing currency here for the use of internal trade. The system has very successfully worked for about a century. But there is a universal belief that the Indian currency and exchange are managed by the Imperial and Indian Governments, to the detriment of India.

The history and mechanism of remittances have given room for such a conviction. Only a few evils of manipulated exchanges are pointed here :—

(*a*) The sale of Council Bills depresses exchange rates, and prevents them from rising above the specie points as they frequently would for a creditor country like India. Indians pay more and our debtors pay less for remittances than they would under automatic exchange.

(*b*) This manipulation prevents the flow of gold and silver in payment of her debts. The doles of the precious metals coming to India depend upon the sweet will of the Secretary of State. He can open and close the market at will. The Secretary controls exchange rates and the flow of gold to India. How he manipulated exchange in 1893, in 1919-20, and during the War years is known to all. He can divert gold to London in transit from Australia or Egypt to India. He sells drafts in a way that more gold should not be drained to India than can be safely spared by London. He sells drafts to take off the profits of the rupee coinage. Thus he masters exchanges, and this commanding position is used to the prejudice of India. Hence the country depends on a purely artificial, manipulated, perverted and autocratic system of exchange. The interests of India are several times sacrificed to the financial interest of London. The Chamberlain Commission has thus admitted the charge :—

"It is necessary for the Secretary of State to sell sufficient drafts, not merely to meet his own requirements on revenue and capital account, but also to satisfy the demands of trade up to such an amount as will enable the balance of trade in India's favour over and above the amounts of the home charges on revenue and capital account to be settled *without the export to India on private account of more gold than is actually required in India for absorption by the public.*" (P. 121.)

(*c*) How is the Secretary of State to know that so much gold is demanded for internal consumption? The imports of gold are characterised with such wild variations that it is impossible to predict even approximately the real demand for the yellow metal. The imports of gold touched the low figure of eight crores in 1908, rose to 41½ crores in 1911, again fell down to 2¼ crores in 1918, recovered to 48 crores in 1919, dropped to 14 crores in 1921, but reached an unprecedented height of 74 crores of rupees in 1924. How can the Secretary of State know the demand for gold in India? Hence it is supremely necessary that the import and export of gold should be left to natural causes.

During the War the import of gold was practically stopped to such an extent that for the war quinquennium the total net import was 26 millions against 102 millions of the previous quinquennium.

(*d*) After the War, too, gold was successfully prevented from coming to India, so that the London reserves were swollen at the expense of India, as will be evident from these returns :—

BALANCES HELD IN LONDON.

Year.	Total Million £.	Year.	Total Million £.
1913	39	1919	96
1914	30	1920	55
1915	44	1921	54
1916	67	1922	56
1917	100	1923	64
1918	106	1924	74

The purpose of keeping such inordinately large reserves in London was to prevent the export of gold from London to India.

(*e*) The gold in these two reserves was used in financing British industries by buying their securities. This game has been played with such recklessness that the gold stock has been allowed to be reduced to zero.

The value of securities, including special reserve securities, in the two reserves is shown, along with the amount of gold held in each year.

Year.	Gold Million £.	Securities.
1913	10½	20½
1914	6	16
1915	14	23
1916	10½	51
1917	6½	83
1918	6	92
1919	2	82
1920	£ 488 only	48
1921	„ 1,775 „	45
1922	„ 3,658 „	46
1923	„ 941 „	54
1924	no gold	60

(Reports of the Controller of Currency, 1923-24, pp. 70-71.
„ „ „ „ „ 1924-25, p. 13.)

(*f*) It is an open secret that we have sustained severe losses by the depreciation of these securities If there is no necessity of having a ready stock of gold, then the very *raison d'être* of keeping these reserves in London disappears.

At a time of crisis the sale of these securities to obtain gold will entail a heavy loss. It will be far greater than can ever be by the shipment of gold from India.

Then the holding of such large amounts of gold, ranging from 54 to 106 million sterling, is not meant for adverse balances. From 1899 to 1924 the remittance of gold from India due to an unfavourable balance of trade was as follows :—

REVERSE DRAFTS PAID IN LONDON.

	Thousand £.
1908-09	8,058
1909-10	156
1914-15	8,707
1915-16	4,893
1918-19	4,720

The Secretary of State should not have been given the power to sell Council Drafts beyond his own requirements. This practice has been a fruitful source of serious evils.

The best policy is to deprive him of his power to control exchanges and to offer bills for sale. He should receive the home charges through the Imperial Bank.

The arbitrary action of the Secretary of State led to an unbridled increase of inconvertible legal tender in India. Within four years, 1915-1918, Council Bills to the value of 109 million sterling were sold in London, although the Government had incurred £200 million on behalf of the Home Government. Then 76 million sterling were invested in Treasury Bills. The Secretary of State ought to have taken the money from the Imperial Treasury, but by his sales he compelled the Government to find means to the extent of £385,000,000. That is one of the reasons why there has been so much inflation of money in India.

	Rupees.	Notes Crores of Rs.
1912	182	45
1920	260	154
1924	—	167

The whole gold standard reserve was transferred to London. So India had none of the gold and silver in this Reserve from 1917. A sum of £36,000,000 was invested in London for strengthening the financial market there at the expense of India. Similar is the story of the gold portion of the Paper Currency Reserve. For instance its composition in 1919 and 1924 was:—

	1919. (Lakhs of Rs.)	1924. (Lakhs of Rs.)
Silver in India and in transit	37,39	85,62
Gold in India	17,37	22,32
„ England	12	
Securities in India	16,08	57,31
„ in England	82,50	14,00
	153,46	179,25

Thus out of the gross circulation amounting to 153 crores, rupees 82½ crores were invested in England and the actual silver and gold to redeem the notes in India amounted to only 30 per cent., while 54 per cent. of the reserve upon which the redeemability of notes depends, was not available in this country. It was lodged 7,000 miles from the shore of India.

Such a practice is most reprehensible. An alien Government ought not to expose itself to such irrefutable charges. It has pledged itself to the fiscal and financial autonomy in India. Let it be carried out in right earnest by transferring in time to come all the functions of Exchange and Paper Currency to the Imperial Bank.

Minting of Gold in India.

Question 6.—The minting of gold in India is a *sine qua non* of introducing gold currency in the country. It is the surest attribute of sovereignty. It satisfies national pride. It places India on a footing of equality with other Dominions. We will utilise our gold output for minting coins. The so-called hidden hoards will come out for use in currency. It will mobilise our immobilised imports of gold. The imported gold is rendered useless; it does not enter into currency; it does not buy goods; it is not invested as capital, and does not bear any interest. It is, in fact, dead and as if consumed. The Royal Mint successfully opposed the establishment of an Indian Mint up to 1917. When Ottawa, Sydney, Melbourne, Perth can be relied upon by the authorities of the Royal Mint, the Bombay Mint should also be allowed to coin sovereigns and half-sovereigns of the same weight and fineness as those of England, as was done in 1918. Sovereigns are preferable to mohurs, because they serve as the cement of the Empire and will have a considerable prestige in the commercial world. Gold will be attracted profitably from Africa to pay the balance due to India from London, if, in exchange for the raw gold, currency can be obtained as quickly and economically as in London. However, if the Imperial Government have any serious objections to this practice, we should undertake to issue gold mohurs or fifteen-rupee gold pieces. By so doing the Bombay Mint will be independent of the supervising authority of the Royal Mint, and we will be free to mint gold coins suitable to the requirements and traditions of India.

Question 8.—England in summer and Christmas seasons has more demand for money. But America is like India subject to seasonal demands for currency.

The methods adopted by the banking world there should be adopted here with suitable safeguards. The issue of money against commercial bills is the most approved practice. On the Continent, too, it was popular before the war. The practice has already been adopted in India. It should be extended if required by amalgamating the schemes of Sir Edward Holden and of the F.R. Banks of the United States of America.

Question 9. No purchases will have to be made for several years to come under the schemes proposed by me, our present stock being sufficient for subsidiary coins. The Secretary of State will be divested of his powers of control over exchange and currency. The Imperial Bank will buy silver, when needed, in the open market in India.

NOTE ON THE ABSORPTION OF GOLD AND SILVER.

Incidentally, let me point out the falsity of the gratuitous assumption that Indians are fond of hoarding very large quantities of silver or of turning the same into silver ornaments. For twenty years, from 1851 to 1870, silver to the value of 158 million sterling was imported into India, out of which 152·5 million pounds' worth of metal passed through the mints. That is, 5·5 million worth of silver was left for arts and industrial uses during two decades. Similarly, from 1870-71 to 1892-93 the yearly average of imports was 7 million pounds, but 6·6 million was annually coined out of it, so nearly the whole of the imported silver was absorbed by currency demands and a most insignificant quantity was left, if at all, for industrial and ornamental purposes.

The absorption of gold would have been more if Government had not followed a policy hostile to the true interests of India. The net imports of the yellow metal from 1871 to 1920 are shown by decades below :—

Year.	*Net absorption total for 10 years.* £ *million.*	*Annual average.* £ *million.*	*Population.* *Million.*	*Consumption of gold per head.*
1871–1880 ...	15	1·5	254	·0059
1880–1890 ...	30	3·0	287	·010
1891–1900 ...	21	2·1	294	·007
1901–1910 ...	60	6·0	315	·019
1911–1920 ...	128	12·8	319	·040
Total for 50 years	254	5·1		

This absorption is so insignificant that no nation can or ought to be jealous. All should rather pity the case of poor India. The annual absorption of gold per head during the five decades is approximately $1\frac{3}{5}$, $2\frac{2}{5}$, $1\frac{3}{5}$, $4\frac{1}{2}$ and $9\frac{3}{5}$ pence respectively.

In other words, the accumulated share of gold per head for these fifty years of growing agriculture, trade and industry, wealth and prosperity, is nineteen shillings and nine pence.

The whole stock absorbed by India during the period of full fifty years is valued at its annual import price at 254 million pounds. As gold has been falling in price the present value of this stock must be some 20 per cent. less. Then losses by wear and tear in ornaments, by fire, burial, and use in medicines for internal consumption and other uses in arts from which it cannot be recovered, must be roughly estimated. I am inclined to put 5 per cent. of the net imports of every year to be lost on these causes. A calculation on this assumption shows that in 1920, only £120 million worth of gold out of 254 million pounds could have been left in the hands of the people. Without calculating the depreciation in the value of gold, the per head share of all gold imported into India during 50 years, is approximately sixteen shillings, while the stock at present is only eight shillings per capita. This is the amount for which India is being suspiciously looked upon by the world.

The last decade of pre-war and post-war years is full of significance. During the four years of 1911-1914 the net imports of gold totalled 79·3 million pounds, giving an average of about 20 million pounds per year.

This tide was turned by the war, not that our exports during the war years were less, but because gold was not permitted to be imported into India. It was against the interests of Allied finance.

The result was that during the five years ending 31st March, 1919, the gold imports fell to 5 million pounds a year, of which £2,000,000 were sovereigns, the remainder being bullion and coined gold other than sovereigns. The payments due to India were made in appreciating silver and not in depreciating gold. It will be seen that the imports of silver during the four pre-war years averaged 7·6 million pounds : these rose to 16 million pounds during the five war years. If

gold were released by the Allies, India will have continued to obtain large amounts of the yellow metal. Neither the price of gold will have fallen to the extent it did, nor the adoption of gold standard will have been jeopardised after 1920.

As India is a dependency of England and its exchanges can be controlled by England she was deprived of its share in gold by the master of her destiny. While England, America, all the neutral countries, and even our rival Japan, were piling gold upon gold, this country was deliberately kept starved. The following table will eloquently present the facts on the accumulation of gold :—

GOLD RESERVES IN CENTRAL BANKS (IN MILLION DOLLARS).

Countries.	*1913.*	*1921.*
Belligerent countries (France, Italy, Belgium, Germany, Austria-Hungary)	1,556·2	1,236·2
Sweden	27·4	75·5
Norway	12·8	39·5
Denmark	19·7	61·0
Netherlands	60·9	245·6
Spain	92·5	479·2
Switzerland	32·8	104·9
Argentine	225·0	450·1
Japan	65·0	558·8
	536·1	2,014·6
England	175·2	763·3
United States of America	691·5	2,529·6
Total	2,959·0	6,543·7

While the belligerent countries of Europe lost 320 million dollars' worth of gold in eight years the gold reserves of England were increased by 588 million dollars, those of Japan by 494 million dollars, of America by the fabulous sum of 1,838 million dollars. The eight neutral countries together gained 1,478 million dollars' worth of gold. There was only one country in the world whose stocks of gold were rather depleted. It was India. Both the Imperial and the Indian Governments are responsible for this vandalistic or at least hostile policy towards India.

India could have easily piled up gold like Japan, had not her Government stood in her way. She could have most conveniently and forthwith adopted a gold currency, but the scheme has been in every way crushed by the selfish and short-sighted policy of the powers that rule the destinies of this country.

India with one-fifth of the human race and with traditions of the maintenance of a gold currency for several millenniums has a claim to at least 20 per cent. of the world's output of the yellow metal. The following figures will speak for themselves :—

INDIA VERSUS THE WORLD.

Years.	(1) *India's absorption. Million pounds.*	(2) *World's output.*	*Percentage of (1) to (2).*
1851–1860	22	274	·8
1861–1870	59	260	22·5
1871–1880	15	219	6·5
1881–1890	30	221	13·5
1891–1900	21	436	5·0
1901–1910	60	778	7·7
1911–1920	128	877	14·5
Total for 70 years ...	335	3,065	

India with a favourable balance of trade is a creditor country and gets gold in payment of her exports, but much of the gold is intercepted and in one way or other appropriated by England. It is for this reason alone that she has not obtained her full and proper share of the gold supply.

In short, it is evident that the Indian has by no means any fascination for the yellow witch. The white nations were bewitched more by the precious fairy than the Indians have been for the last 70 years.

The *per capita* share of gold absorbed during three generations is as low as 16*s*. only, while the present stock in the Central Banks alone in the United States of America is $25 per head!

APPENDIX 27.

Statement of evidence submitted by Mr. Jamsetji Ardaseer Wadia, of Bombay.

The mints were closed in 1893, but the Government of India had set its heart on closing the mints and over-valuing the rupee years before 1893. I have before me a letter of the Lord Commissioners of the Treasury to the Secretary of State for India in Council dated the 24th November, 1879, and it says as follows: "The proposal appears open to those objections to a token currency which have long been recognised by all civilised nations, *viz.*, that instead of being automatic it must be managed by the Government and that any such management not only fails to keep a token currency at par but exposes the Government which undertakes it to very serious difficulties and temptations. It appears, too, that the Government of India in making the present proposal lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies. In general, the object of such Governments has been to diminish the amount they have to pay to their creditors. In the present case, the object of the Indian Government appears to be to increase the amounts they have to receive from their taxpayers. If the present level of exchange be due to the depreciation of silver, the Government scheme, if it succeeds, may relieve the Indian Government and others who desire to remit money to England; but this relief will be given at the expense of the Indian taxpayer and with the effect of increasing every debt or fixed payment in India including debts due by ryots to moneylenders."

A little before the closing of the mints in 1893 the "Statist" of London wrote as follows on the 5th November, 1892: "If the purchasing power of the rupee were raised by 20 per cent., land tax and other taxes payable to the Government would likewise be raised. So would all debts due at the time the change was made. In other words, every banker, capitalist and usurer would find his property so far as it has been lent out to others increased by 20 per cent. Of course, likewise official salaries would be enhanced in the same way. There would be a sweeping transfer of property from the producing working millions who create the wealth and prosperity of the Empire to the servants of those millions and the parasites who prey upon them."

The Herschell Committee reluctantly consented to close the mints in 1893 since the Government of India threatened bankruptcy. They, however, would not fix the rupee at 1*s*. 6*d*. as demanded by the Government of India but fixed it at 1*s*. 4*d*. Clause 135 of the report of the Herschell Committee runs as follows: "It is impossible in view of these considerations not to come to the conclusion that to close the mints for the purpose of raising the value of the rupee is open to much more serious objection than to do so for the purpose of preventing a further fall." The Herschell Committee understood perfectly well the gravity of artificially raising the rupee. The Government of India commenced to coin rupees on and after 1900, and the flooding of the country with token currency had disastrous effects on its economic life. It inflated foodgrain prices which necessitated increased wages, which increased the cost of production and enormous increase in taxation in recent years. I beg to submit the following figures to show the inflation in prices:—

Year.	*Retail foodgrain prices (India).*	*Atkinson's figures.*	*English figures.*
1894	114	138	68
1904	117	129	70
1905	147	144	72
1910	168	161	78
1911	161	166	80
1912	189	186	85
1913	199	195	85
1914	222	200	85

For about 32 years the Government of India has been trifling with our currency under the guise of fixity, and every opportunity has been taken to go in for a high fixity. They took the opportunity of a rise in the price of silver which took place after the Armistice to bring into existence the Babington-Smith's Committee which recommended the fixing of the rupee at 2*s*. gold. That proved very disastrous, and I do not wish to dwell upon that except to show that the Indian Government misses no opportunity to fix the rupee at a high rate. That policy was abandoned, but I do not see any necessity for further examining the question as the Herschell Committee and all other Committees have fixed the rupee at 1*s*. 4*d*. There was some excuse for the Babington-Smith's Committee since silver rose to about 89*d*. to the oz. As long as silver does not rise above 44*d*. to the oz., 1*s*. 4*d*. to the rupee must hold good. The present price of silver is about 32*d*. I do not see any use of examining this question again, except to squeeze the taxpayer by a high fixity for the benefit of the foreigner. It is said that the present high exchange of 1*s*. 6*d*. is the result of trade. It is really absurd to think so. In my opinion, Government has created a monopoly in the rupee, and it can demand what price it likes. As long as the balance of trade is in India's favour, you can put the price up. A high exchange will diminish our balance of trade, but it cannot destroy it unless it is too high. The best course is to go back to 1*s*. 4*d*. with an effective gold currency. Every opportunity may be taken to conserve gold and to encourage note circulation, but the notes must not be based on silver rupees but on gold. Our rupee to-day according to the late Professor Marshall is a metallic note. If that is not allowed to us on account of the monetary interests of London, then I would prefer an open mint to silver. Silver or gold currency must be honest.

APPENDIX 28.

Statement of evidence submitted by Mr. G. I. Patel, B.A., M.L.C., Joint Honorary Secretary, Ahmedabad Millowners' Association.

Question I (*a*).—Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the Rupee or otherwise?

Since 1917, when the pre-war Currency and Exchange system broke down, the Indian public has suffered from the evil consequences of an unstable rupee which during the interval rose as high as 2*s*. 11*d*. and fell as low as 1*s*. 3*d*.

The Babington-Smith Committee considered the problem and suggested certain remedies. But they thought of introducing stability in Indian currency at a time when the economic equilibrium of the whole world was disturbed. The action taken by the Government of India in pursuance of the recommendations of this Committee did not succeed, and brought great losses and odium to them. People began to entertain suspicions regarding the currency policy of the Government, as for years business men have remained in suspense, regarding the Exchange value of the Rupee, in which their transactions are measured. In consequence, loud complaints and protests were naturally made by the commercial community for an early settlement of the Currency and Exchange problem. But just as the Babington-Smith Committee was too hasty in arriving at their conclusions, the authorities have of late been too slow in coming to a final decision in this matter. This over-cautious attitude has meant that India should sit silent till world conditions improve and better opportunities for a revision of the Currency policy present themselves. The return of England to the gold standard or the approach of sterling to gold parity in recent times has been taken to be an indication of such desired improvement in world conditions. Not considering whether this delay has been wise, we must come to the conclusion that it is high time that adequate steps be taken immediately to inspire confidence among the people regarding the Currency policy of the Government by a thorough revision of the whole mechanism.

Question No. I (*b*).—What is the comparative importance of stability in internal prices and in foreign Exchanges?

The stabilisation of the rupee at 1*s*. 4*d*. was the chief aim of the pre-war policy of the Government, and so long as the rupee remains unlimited legal tender, whatever other changes be introduced, its stability in relation to gold should certainly be one of the principal aims of the Government.

Stability of internal prices and of foreign exchange are both important, and one should not be sacrificed for the other. In fact, a change in internal prices

will soon react on foreign exchange, and *vice versa*. It is no use considering which of the two is more important. The real problem is to consider which is the best system by which the maximum amount of stability both in internal prices and in foreign exchange can be obtained.

Question I (*c*).—What are the effects of a rising and falling rupee and of a stability of high or low rupee on trade and industry, including agriculture and on national finance?

In times when the rupee is rising, prices will have a tendency to fall. Exporters will therefore suffer. An impetus will be given to importers of foreign goods. In a country like India where the few industries that have come into existence are still struggling to make a headway, and where a policy of protection for certain industries under certain conditions has been accepted by the Government, any such encouragement to foreigners to send their goods at a cheaper rate to India must mean a great hardship and even ruin in some cases.

Let us briefly consider in general terms the harm done to Indian industries in recent years by the policy of higher exchange. The Government of India decided to give protection to the steel industry, for which certain import duties were imposed on foreign goods. The effect of these duties was nullified by the subsequent rise in exchange, which enabled foreign goods to enter India at a cheaper rate. In consequence, an additional bounty had to be given to the steel industry.

It is obvious that similar adverse effect must have taken place on other less organised industries in India which need protection.

The effects of higher exchange on industry have, however, been much worse. It has not only prevented the growth of new industries, but has also meant ruin to well-established industries like the cotton industry.

The Indian cotton industry has come into existence—without any support or encouragement from Government—rather in spite of obstacles from them in the shape of the Cotton Excise Duty.

One of the important reasons of the present depressed conditions in which the industry is placed is the policy of high exchange. This policy has enabled other countries to send their goods at a cheap rate to India. It has particularly helped Japan to dump in India its cheap goods. Just as a rising exchange will be a source of incalculable mischief to Indian industries in this way, a falling exchange will give an impetus to them and encourage exports.

The effects of a rising and falling exchange on agriculture are the same as those on industry. A greater portion of our exports are agricultural raw products and food-stuffs. With a falling exchange these exports will receive a higher price and therefore be at an advantage, just as they will suffer if the exchange is rising.

It may be said that the Government or national finances will gain with the higher exchange, because this will mean a smaller number of rupees to the Government to meet the Home charges; with a lower exchange, the number of rupees to be provided for this purpose must be larger.

In any such case, however, we have to consider the balance of advantages. The Government gets its resources from the people by way of taxation. If the people are well off, if their taxable capacity is higher, they will not mind parting with a little more money to meet the expenditure of the Government. But if their own resources are crippled then any small saving which the Government may make will be no consolation to them.

On this larger ground therefore, a lower exchange which will help both agriculture and industry will in its turn give a wider margin for taxation to the Government, which will more than counter-balance any shortsighted saving which the Government may see in a higher exchange so far as their sterling remittance is concerned.

These effects are more pronounced when exchange is rising or falling. But when exchange is definitely stabilised at a certain figure for a long time, prices in the long run adjust themselves, and things go on in a normal fashion. But in a country like India, which is liable to bad monsoons and consequent famines, the possibility of maintaining the exchange at a high or low level must be considered. In times of scarcity exports fall off and exchange becomes weak. At such times, if exchange is fixed at a high level, there is the difficulty of maintaining it by special measures. The resources of the Government may not be adequate if the crisis is severe and accompanied by another in England, and the whole system may be exposed to danger.

On all these grounds, therefore, we come to the conclusion that a low exchange is advantageous for India.

Question II (a).—In relation to what standard and at what rate should the rupee be stabilised, if at all?

The rupee should be stabilised with gold at 1*s.* 4*d.*, as sterling has now approached gold parity and arrangements have been made in England by which sterling is likely to be maintained at its gold parity under normal conditions 1*s.* 4*d.* gold will be the same as 1*s.* 4*d.* sterling.

The general argument in favour of stabilising the rupee at 1*s.* 4*d.* instead of at the present rate of 1*s.* 6*d.* are given in answer to Question I.

It may be further added that the people have been accustomed to this rate for many years, and that stabilisation at this rate means only the restoration of the pre-war rate, which has been the policy of England herself.

Again, the present rate of 1*s.* 6*d.* has been brought about by artificial means of contracting the currency in recent years. Mr. B. F. Madon, of the Indian Merchants' Chamber, has ably shown in his recent pamphlets on the Indian Exchange problem the way in which this contraction was carried out, with the consequence that the industries of India have been suffering and are in the most depressed condition. This policy of artificially raising the rate seems to be the remnant of the Babington-Smith policy of stabilising the rupee at 2*s.* gold. Though the experiment to arrive at this rate has proved ruinous, the general idea underlying the policy that a higher rate was better for India seems to be the determining factor in the recent measures of the Government by which exchange has been maintained at a higher rate, and no steps have been taken to restore the pre-war rate of 1*s.* 4*d.* for which the country has been crying.

Question II (b).—When should any decision as to stabilisation take effect?

There is no reason to delay this action, and the sooner the decision regarding this is put into effect, the better for all concerned.

Question III.—If the rate selected differs materially from the present rate how should transition be achieved?

During the transition period, the Government should sell Council Bills in a judicious manner so that the tightness in the money market may be removed by the consequent increase in currency.

The additions to the currency will in course of time bring the rate to its original level of 1*s.* 4*d.*

Question IV.—What measures should be adopted to maintain the rupee at the rate selected? Should the Gold Exchange Standard system in force before the war be continued and with what modifications, if any? What should be the composition, size, location, and employment of a Gold Standard Reserve?

If the Gold Exchange Standard system is continued, the Government should undertake a statutory obligation to give gold for rupees at the fixed rate in certain large quantities for export to meet external obligations in times of adverse exchange.

This will effectively prevent the rate from falling below 1*s.* 4*d.*, just as the pre-war practice of selling Council Bills at 1*s.* 4⅛*d.* in unlimited quantities had the effect of preventing the rise of the rupee above 1*s.* 4*d.* This latter practice should be continued, but used in a more judicious manner.

Gold Standard Reserve.—In order that the Government may be able to give gold for rupees in the above manner, the Gold Standard Reserve should be located in India. At least half of the reserve should be in gold, the other half may be held in securities which can be easily realised at a short notice.

The reserve should not be used for any other purpose but the legitimate one of supporting the currency system of the country. And in order to do this effectively no limit should be placed as to its size for the present.

Question V (a).—Who should be charged with the control of the note issue and on what principles should control or management be transferred to the Imperial Bank of India and if so what should be the general terms of the transfer?

The management of the note issue should be handed over to the Imperial Bank of India. The remittance operations of the Government should also be conducted by the Bank (*see* Question VII). This will mean that the Bank will

be a real State Bank in charge of Government balances, Note issue and remittance operations.

In order to secure the proper and efficient management of this important work, there should be adequate control of the Government over the Bank. This may be arranged by appointing a certain number of directors on the nomination of the Government. Some of these may be non-officials, to safeguard the interests of the public. There should be besides, the final veto of the Government in certain important matters. The appointment of the Managing Governors should be subject to the sanction of the Government.

Adequate arrangements should at the same time be made to Indianise the Bank's service in all its grades—higher as well as lower.

The Bank has undertaken to start 100 branches in five years since its inception. If all this new work is entrusted to it, it should be required to start more branches still, so that in course of time no important town may be left without a branch of the Bank.

Question V (b).—What provisions should be made as to the backing of the note issue?

The present permanent constitution of the Paper Currency Reserve should be retained. At least half the gross circulation of notes should be supported by a metallic reserve; the other half being held in securities which can be easily realised.

Question V (c).—What should be the facilities for the encashment of notes?

The facilities for the encashment of notes should be increased. All branches of the Imperial Bank should be required to give this facility. In places where there is no branch of the Bank the Government should undertake to provide a suitable agency, say its Treasury Office, for encashing notes.

Question V (d).—What should be the policy as to the issue of notes of small values.

Notes of Rs. 2½ issued during the war became unpopular and were soon discontinued. The one-rupee notes though popular have been found to be costly in the long run. The lowest denomination of notes should therefore be Rs. 5, as at present.

Question VI.—What should be the policy as to the minting of gold in India and the use of gold as currency? Should the obligation be undertaken to give gold for rupees?

The answers to the preceding questions have been given on the assumption that the Gold Exchange Standard is to continue. The experience of the War, however, has revealed the inherent defects of the pre-war system. The maintenance of the exchange value of the rupee at 1*s*. 4*d*. which was the key-note of the policy of the Government before the War had to be abandoned as soon as the price of silver rose beyond 43*d*. per ounce. The same was the case when the depreciation of sterling manifested itself in March, 1919, when the control of the dollar-sterling exchange was withdrawn. This had an adverse effect on the rupee-sterling exchange till sterling was stabilised with gold in recent times. The Indian currency system was thus exposed to the vagaries of the silver market on the one hand, and to the fluctuations of the sterling-dollar exchange on the other.

Besides on account of the policy of selling Council Bills without limit which was followed before the war the issues of rupees was larger than required. This large number of rupees in circulation has made the currency problem more and more acute. The people have learnt during the war and after that the rupee is very unstable in value and they have known long since that it is a token coin. This situation has encouraged the people to hoard gold—the one form in which they believe their store of value is most secure. Instead of teaching the people of India the economical use of gold the policy of the Government is driving them to the wasteful habit of hoarding. India has been considered a sink of precious metals by the West. It is no fault of the people of India if they are led to this practice, because they cannot have any confidence in the unstable token rupee.

Under the circumstances, it is best that India should be put on the Gold Standard. The establishment of the Gold Standard will alone enable India to be free from the defects of the existing system referred to above. With a Gold Standard the people would be encouraged to make an economical use of their gold, they will no longer be afraid of bringing it out from their hoards and in

using it for currency purposes. With a Gold Standard the troubles of an unstable exchange will disappear.

This will give a great impetus to Indian trade and industry. The hoarded gold will then be used to supply capital for industries which are sorely in need of the same. If necessary, with a Gold Standard it would be easier to import foreign capital for industrial purposes. Stability of exchange with gold-using countries with whom we have most of our transactions will mean a great advantage to our trade and commerce. Internal prices will also be more steady with a Gold Standard. On the whole therefore the introduction of a Gold Standard will bring many economic advantages to India.

It will be difficult in a country like ours to have a Gold Standard without gold currency. The use of gold coins will therefore be a necessary stage before we can adopt a more economical form of Gold Standard like that of England.

Adequate provision should therefore be made to coin gold in India. The Indian Mints should be thrown open to the free coinage of gold as soon as possible.

The people are familiar with the use of the sovereign for the last so many years. If, however, the sovereign is considered to be a coin of a very high value for India, we may have a ten-rupee gold coin.

If a Gold Standard with a gold currency is decided upon the relation of the rupee to the gold coin will have to be fixed for internal purposes. For external purposes this ratio will lose importance as foreign transactions will then take place in gold. The most natural ratio for India is the pre-war ratio of 1*s*. 4*d*. to a rupee. This means that if we have a 10-rupee gold coin it should be 10/15ths or 2/3rds of the sovereign in weight and fineness.

If it is asked whether the Government can introduce a gold standard of this nature without any difficulty the answer is that they have large resources in the shape of the Gold Standard and the Paper Currency Reserves which if properly managed should enable them to take this desired step.

Of course, it will not be possible for Government to convert rupees into gold without limit. This may be done gradually and as circumstances permit. This is not so difficult as it appears at first sight, because there are obvious limits to the number of rupees which will be presented for conversion. In course of time when the Gold Standard is properly established the rupee should be made a limited legal tender.

Question VII.—By what method should the remittance operations of the Government of India be conducted? Should they be managed by the Imperial Bank?

The question of handing over the remittance operations of the Government of India to the Imperial Bank has been referred to above in answer to Question V.

The remittance operations may with advantage be carried out by the newly introduced system of purchase of sterling in India instead of by the sale of Council Bills.

Question VIII.—Are any, and, if so, what measures desirable to secure greater elasticity in meeting seasonal demands for currency? Should any, and, if so, what conditions be prescribed with regard to the issue of currency against Hundis?

If the currency system be made automatic by the introduction of the Gold Standard as said above there will not be any great necessity to issue special currency to meet seasonal demands.

So long, however, as the Gold Exchange Standard System is continued, and therefore, so long as the issue of currency is in the hands of the Government only, the necessity for such special issues of currency during the busy season will remain.

As we propose that the management of the Note-issue should be handed over to the Imperial Bank, it should be made one of the conditions of the transfer that the Imperial Bank should issue such seasonal currency under certain conditions. The existing restrictions on the Bank in this regard will be relaxed as the Bank will be required to use its own discretion in issuing such currency.

Question IX.—Should any change be made in existing methods for the purchase of silver?

The question will lose its importance if the Gold Standard is introduced.

The existing method will have to be followed if the Gold Exchange Standard is retained.

CONCLUSIONS.

1. We are of opinion that a Gold Standard with a gold currency is the best system of currency for India, and that early steps should be taken for its introduction.

2. That during the interval, which should be as short as possible, arrangements should be made to remedy the defects of the existing system as far as possible.

3. That for this purpose, the Government should undertake to give gold for rupees for purposes of export in times of adverse exchange.

4. That the rupee should be stabilised with gold at 1*s.* 4*d.* at an early date.

5. That the management of the Note-issue and remittance operations of the Government should be handed over to the Imperial Bank, under suitable conditions.

APPENDIX 29.

Statement of evidence submitted by Dr. B. R. Ambedkar, Bar.-at-Law.

1. In reply to the questionnaire issued by the Commission I beg to submit the following statement of my views. In dealing with the questionnaire issued by the Commission I will begin with question No. 4 because I believe that is the principal issue on which the Commission is asked to give a definite finding.

2. I am emphatic in my opinion that the Gold Exchange Standard cannot be continued with any advantage to India and for the following reasons :—

(1) *It has not the native stability of the Gold Standard.*—A pure Gold Standard is stable because the value of gold in circulation is so large and the new additions to the supply are so small that the stability of the standard is not thereby appreciably affected. But in the case of the Exchange Standard the new additions are dependent upon the *will* of the issuer and can be augmented to such an extent that the stability of the standard can be appreciably affected thereby.

(2) *It is discretionary in issue without there being anything in it to regulate the discretion.*—It is sometimes said that the Gold Standard is a hard standard which keeps the changing affairs of mankind tied to the wheel of nature over which human agency can exercise no control and that the Exchange Standard affords an escape from this frigidity. In reply to this it must be said that though a discretionary currency is better than a frigid currency, it is so only when the currency is provided with some means which enables this discretion to be properly exercised. There must be some regulator by which the discretion left to the issuer is regulated. From this point of view an Exchange Standard is inferior to a Convertible Standard. A Convertible Standard and an Exchange Standard are alike in this that they both allow the use of discretion in the issue of currency. But a Convertible Standard is superior to the Exchange Standard because the discretion of the issuer in the former is *regulated* while the discretion of the issuer in the latter is *unregulated*. It is true that in the Exchange Standard there is what is called regulation by foreign Exchanges. But such a regulation, though it is better than no regulation at all, is only a loose and indirect way of reaching the end and cannot be depended upon in all circumstances of reaching it.

(3) *It is economical. But for that very reason it is insecure.*— There are many writers who are enamoured of the Exchange Standard, because it effects a certain degree of economy in the use of gold. But is the plan secure? Any plan of currency to be sound must be both economical and secure. It will do if it is not economical; but it will certainly not do if it is not secure. Now I submit that the proposition that *to economise gold as a currency is to impair its utility as a standard of value* is as simple and self-evident as the proposition that to use paper or rupee as a medium is more economical than to use gold. For what does this discarding of gold from currency use mean? It simply means this: that by economising the use of gold you thereby directly increase its supply and by increasing its supply you lower its value, *i.e.*, gold by reason of this economy in its use

times of severe depression it may remain limited to the needs of the occasion. The second source of weakness in the currency arises from the peculiar composition of the Paper Currency Reserve. That weakness lies in the existence of what are called "Created Securities." I should like this portion of the Paper Currency Reserve extinguished as early as possible. For unless this is done the paper currency cannot with safety be made as elastic as it should be. I would therefore recommend that the remainder of the Gold Standard Reserve be utilised in the cancellation of the "Created Securities" in the Paper Currency Reserve.

8. Having given my views on the nature and form of the change I will now discuss the question next in importance, namely, "the ratio between gold and rupee." As a result of war operations there is not a single country with a Gold Standard which was able to keep its pre-war gold parity. Some of them have erred from it by such a large margin that it is now beyond the capacity of many to approach it with any degree of certainty. But howsoever impossible and impolitic the task, the hankering for a return to the pre-war parity seems to be universal. There is but this difference between India and the other countries. The other countries have yet to reach the pre-war parity. India, on the other hand, has in fact overreached the pre-war parity. As a result of the difference the problems before India and the other countries are different. In European countries the problem is one of deflating the currency, i.e., appreciating it; in other words of bringing about a fall in prices. In India the problem becomes one of inflating the currency, i.e., depreciating it; in other words of bringing about a rise in prices. For a change from 1*s*. 6*d*. gold to 1*s*. 4*d*. gold means this and nothing else. Should the currency be inflated to reach back the pre-war parity? There are some people who are under the impression that the restoration of pre-war parity would give justice and would also give us the old price level to which we were so long accustomed. Both these views are fallacious. First: the restoration of pre-war parity is not a restoration of the pre-war price level. For it is to be remembered that 1*s*. 4*d*. gold in 1925 is not the same thing as 1*s*. 4*d*. gold in 1914 if measured in terms of purchasing power. The same ratio of exchange does not necessarily mean the same level of purchasing power. The ratio between two currencies may remain the same though their respective volumes have undergone enormous changes, provided the variations in volumes are equal and in the same sense. This is exactly the result of a mere nominal restoration of the pre-war parity. If by restoring pre-war parity is meant the restoration of the pre-war level of prices then the ratio instead of being lowered from 1*s*. 6*d*. in the direction of 1*s*. 4*d*. must be raised in the direction 2*s*. gold. In other words instead of an inflation there must be a further deflation of the currency. Second: the restoration of pre-war parity even nominally would be unjust. As a standard of deferred payment a currency should not disturb monetary contracts. If all debts now existing had been contracted in 1914 before the war, ideal justice would clearly require the restoration of the pre-war ratio. On the other hand if all existing contracts had been entered into in 1925 justice would require us to keep to the ratio of 1925. Two things must be borne in mind in this connection. Existing contracts include those made at every stage of preceding depreciations and appreciations and to deal fairly with all would demand that each one should be treated separately—a task impossible by reason of its complexity and enormity. Existing contracts are no doubt of various ages. But the great bulk of them are of very recent date and probably not more than one year old; so that it may be said that the centre of gravity of the total contractual obligations is always near the present. Given these two facts the best solution would be to strike an average between 1*s*. 4*d*. and 1*s*. 6*d*., and to see that it is nearer 1*s*. 6*d*. and away from 1*s*. 4*d*. This is substantially the view of Prof. Fisher, who observes: "The problem of a just standard of money looks forward rather than backward: *it must take its starting point from the business now current, and not from imaginary pars before the war*. One might as well talk of restoring the original silver pound or returning to the monetary standards of Greece and Rome." In short, in matters of currency the real is the normal and therefore just.

9. As regards the effects of a rising and falling rupee on trade and industry the point often sought to be made is that low exchange confers a bounty on trade and industry. But this is not the important point. The more important point is, supposing that there is a gain arising from low exchange, whence does this gain arise? It is held out by most business men that it is a gain to the *export trade* and so many people have blindly believed in it that it must be said to have become an article of faith common to all that a low exchange is a source of gain to the *nation as a whole*. Now if it is realised that low exchange means high internal prices,

it will at once become clear that this gain is not a gain to the nation coming from outside, but is a gain from one class at the cost of another class in the country. Now the class that suffers is the poor labouring class, which pays the bounty to the richer or the business class. Such a transference of wealth from the poor to the rich can never be in the general interest of the country. I am therefore strongly opposed to high prices and low exchange, and no righteous Government should be party to such clandestine picking of the pockets of the poorer classes in the country.

10. I now come to the question of providing for the seasonal needs of the money markets in India. A currency system should be stable and elastic, and it is for this reason more than any other that the currency in many countries is a compound of metal and paper. The former is intended to give steadiness and stability and the latter elasticity. Unfortunately in India the plan of the paper currency is not contrived to give it elasticity. In England under a similar paper currency the inelasticity is made good by the development of what is called deposit currency which is issued against good commercial paper. Owing to a variety of causes deposit currency has failed to take root in India and there has been consequently no mitigation of the inelasticity of the paper currency of India. We should therefore make greater provision in our paper currency reserve whereby it could be made possible to convert good commercial paper into currency best suited to the needs of seasonal demands.

APPENDIX 30.

Letter from the Honorary Secretary, the Marwari Chamber of Commerce, Limited, Bombay, to the Joint Secretaries to the Royal Commission on Indian Currency and Finance, dated the 6th December, 1925.

I am directed by the Committee of this Chamber to submit the following statement of their considered views on the question of Indian Currency and Exchange for the consideration of the Royal Commission.

Question I.

1. Time is certainly ripe for a solution of problems of Indian Currency and Exchange. Restoration of the Dollar Sterling Exchange to gold parity, the return of Britain and of the Dominions to the gold standard, the comparatively quick march of the general prices to the pre-war level, improvement in the Exchange of all belligerent States of Europe, increasing consumption of such commodities as cotton, Germany's acceptance of the Locarno Pact and her readiness to join the League of Nations, together with other apparent signs of impending general trade revival all over the world—all these are recent international happenings which point to a brighter future and which will tend to make easy India's efforts towards putting her house in order. Looking at her internal conditions, there is not much difference either. No doubt, trade and industries are not showing very healthy signs; but it is to restore these to health that a solution of India's exchange and currency problems is an immediate necessity. With three consecutive years of bumper crops and the promise of another fairly good harvest this year, the atmosphere is unmistakably bright. Exchange has also tended towards normality in spite of the mistaken attempts made to maintain it at impossible ratios, and it would have by now attained the pre-war level but for the interference of the Government.

2. As to the stabilisation of the rupee, my Committee submit that a sound solution will first aim at placing our exchange on a scientific basis, which must result in achieving a stable Exchange in due course. The measures recommended for adoption must be such as may not only bring about stability in Exchange, but also must fulfil other necessary conditions of sound currency and exchange, one of the most important of which it that Exchange operations must be automatic and free from State interference. What the Committee therefore desire is stability in terms of gold.

3. *Stability in internal prices.*—My Committee want at the outset to point out that howsoever desirable stability in prices may be, and however much currency experts may strive to stabilise prices, given certain conditions, it is impossible by Government manipulation to lower or raise prices of particular commodities. Such complex and numerous factors so influence prices, especially of goods which have a world market, that any attempt to force down or force up prices of particular commodities would either fail

or be unjust. Thus in an all-round famine, prices of even such necessaries of life as wheat may abnormally rise and cause untold hardships without our being able to do anything. In case of general prices, when would the necessity arise to influence or change their course? A further question then arises: when do prices of all commodities simultaneously rise or fall? It is well known that any considerable increase or decrease in the volume and rapidity of circulation of the currency respectively raises or lowers prices of all commodities. When therefore a country gets a much larger or much smaller supply of currency than is needed for its trade requirements, to that extent that country is adversely affected. In case of inflation the fixed-wage men are hurt and in the case of insufficient currency the producer is hurt and general trade is handicapped. It is impossible in the opinion of the Committee to correctly estimate the changing needs of trade. Therefore the best course is to have free coinage and let currency automatically adapt itself to conditions. But when in abnormal times, for nobody's fault, the volume of the currency in a country is multiplied, need may then arise to contract the circulation. Thus general prices concern the managers of currency and exchange in a country only when those prices have been abnormally raised or depressed through artificial contraction or inflation of currency. It should be noted that the tendency of prices has been, for long past, towards steady and gradual rise, owing to better facilities for communication and exchange, owing to increase of population and other like causes. Whenever there is an abnormal or sudden rise or fall of general prices, in nine cases out of ten it will be found to be due to a mismanagement of currency.

4. *Stability in foreign exchanges.*—To anybody who has had any connection with export or import trade of his country, it will be clear that stability is the first requisite of international trade and a fluctuating exchange transforms foreign trade into a gamble. But as stated in the first part of this question, real stability is the one which is attained and maintained through actual exports or imports of gold to settle the debit or credit balances, after the adjustment of foreign debits or credits with the help of Bills of Exchange. In the opinion of my Committee the means here are as important as the end. Stability is, they think, very necessary, but it should be reached on the basis of free gold, and then, with a good backing of gold, stability will, as a matter of course, become a fact, a small fluctuation between the gold points, of course, continuing.

5. *Effects of a rising and falling rupee.*—The effects of a rising rupee is to stimulate imports and at the same time to check exports. Because without any hope or previous calculations the importer's rupee buys more of commodities and he gets an unexpected profit; and owing to the consequent cheapening of the foreign goods their demand increases. Again the importer gets even still cheaper goods. In this way imports go on multiplying. On the other hand, the Indian exporter sells in terms of the pound or dollar. When exchange is rising the exporter loses on his transactions as on the realisation of his sterling bill he finds he gets much less than he expected or calculated. Besides, as his goods become, as a result of the rise in exchange, dearer, to that extent his sales diminish. If this rise continues, the exporter's business is brought to a standstill. Thus save in case of monopolies like jute or lac, the exports are checked or stopped. Another effect of a rising rupee is the profit that the Government may make in making remittances of their Home charges. A Budget consequently, with the deficit in the beginning of the year, may be changed into not only a balanced one, but one with a surplus at the end of the year. One more effect is noticeable. A rising exchange while cheapening all imports sets up an unfair and strong competition against national industries. Factories of paper, soap, iron, glass, steel goods and even cloth find the foreign competition too severe and are thus hit hard at least for the time being. When this rise is spread over a long time, the effects mentioned above are none the less effective. In case of a falling rupee, the position is reversed. Exports are stimulated and imports are checked. The national industries begin to earn greater profits. The State, however, may have to find a larger amount for its foreign payments. These effects of a rising or falling rupee are, comparatively speaking, temporary.

6. *Effects of a stability of high or low rupee.*—The Committee believe that the case of the stability of a high or low rupee stands on a different footing than that of a rising or falling rupee. High or low rupee in the opinion of the Committee means respectively the rupee higher or lower than the gold par. Our gold par before 1920 was 1*s*. 4*d*., or 7·53 grains of pure gold to the rupee. Supposing it is 1*s*. 4*d*. now and the Government by manipulation raise the rate of exchange to 1*s*. 8*d*. and then stabilise it legally and maintain it for some years at that level.

Again suppose that the level of general prices expressed in the average index number of prices be 100. The real effect of the stability at 1*s.* 8*d.* will be that all rupee prices shall become higher to the foreign purchaser by 25 per cent. Unless the goods the Indian exporter offers for sale are produced only in India or its world supply be limited no export shall take place. The effect of this will be that the general level of prices in India will fall. It should be borne in mind, however, that the fall will not be in the same proportion in case of every commodity. Nor will the percentage of fall reflected on the price of one commodity be necessarily as great in an inside country-town as, say, in Bombay. But as stated above, the general level will without doubt be lowered, other things remaining the same. As a result those producers who consume very little of imports and thus cannot be equally compensated by receiving cheaper imports of an equal value for the loss on their exports are hit hard; whereas those who consume large quantities of imports will be largely benefited. The country as a whole will not lose much beyond the loss it will sustain on the excess of exports over imports. The foreigners living in India who have to send remittances outside India in the shape of pays and profits will profit by a 25 per cent. increase. These people will get an unjust profit which will ultimately touch the pockets either of the producers or of the tax payers. The Government will make a considerable saving on their Home charges as they will be released by paying a much lesser amount than they would on the par. The Budget will thus be easily balanced, but it will be at the expense of the producer who will be getting fewer rupees for everything he sells.

7. In the case of fixing a low rupee, the internal price-level will become higher in India and the producer of raw materials will realise more rupees for his goods than he would on the par. The imports will be dearer and the country will be loser in that respect. Again in the absence of any effective competition the prices of Indian manufacturers will be higher and the consumers will have to pay higher prices. But national industries would prosper. Great difficulty might however be felt by the Government in meeting their foreign liabilities and they might be forced either to effect retrenchment in expenditure or levy additional taxes. Even greater hardship will be felt by Britishers employed as Civil servants having fixed salaries. In fact all remitters of savings, dividends and interest outside India will lose as a result.

8. Although in both cases export and import trade will after the adjustment of prices revive, yet my Committee consider both the alternatives as highly objectionable and inadvisable. Such adjustments cannot be carried through without great social and industrial disturbances, strikes, etc. It is also very difficult, if not impossible, to adjust long term contracts, e.g., mortgages or other debts. Therefore any attempt to adopt a higher or lower ratio is highly undesirable.

Again the above discussion presumes the existence of the prevailing system of currency and exchange. But with full Gold Standard as my Committee have suggested in the following, and gold being exported or imported from time to time as Exchange approaches the upper or the lower specie-point respectively, the question will be first to let the rupee adjust itself to the par of Exchange; and then, fluctuating within a narrow range influenced by natural world causes and laws of Exchange, the rupee will surely maintain itself. In the opinion of the Committee, therefore, the question really does not arise as to stabilising a high or low rupee.

Question II.

9. *Rate of Exchange.*—India went over to the gold standard in 1898 and the par of Exchange was established at that time. Although the provisional system was not allowed to develop into the full Gold Standard, for exchange purposes we have since then had Gold Standard in a modified form. The considerations that affect the fixing of a ratio of exchange between two countries both having the Gold Standard, weighed with the Currency Committee of 1898 and will weigh now in considering that question afresh. The simple rule, of course, is that the ratio existing between the value of the standard gold coin of one country and that of the standard gold coin of another country is the ratio of exchange between those two countries. But as in 1898, the sovereign was made the standard coin for exchange purposes both in Great Britain and India, and the age-old rupee continued to be the medium of exchange internally, a ratio of the rupee to the sovereign of 15 to 1 was adopted, keeping in view the gold price of silver and the workability of the ratio chosen. The question therefore of selecting a proper rate of exchange was solved for us in 1898. The other consideration is whether that

ratio is now easily attainable and easily maintainable or not. The very successful working of that rate for over 15 years should be a conclusive proof of its maintainability.

10. My Committee suggest that the ratio of 7·53 grains of pure gold to the rupee or 1*s*. 4*d*. should be reverted to, that gold should be free for export and import and for tender to the Currency Department at that rate and that then Government should leave exchange at that, to work its own way. My Committee believe that this rate will work to the satisfaction of all concerned. The greatest importance is attached by the Committee to India having free inflow and outflow of gold. If that suggestion is accepted, my Committee are emphatically of opinion that no other ratio will be possible to maintain. If the Government select a higher ratio than 1*s*. 4*d*. it is sure to break down at a time of an extremely adverse balance of trade.

11. The decision as to reverting to our pre-war ratio should be taken as early as possible. No doubt a sudden decision will upset the Budget calculations of the Government of India and the State Finances will consequently be disturbed; but my Committee do not think that the difficulties of the Government will not be overcome without levying additional taxes. The uneconomic expenditures of the Government will have to be slightly curtailed and the Budgets will be balanced as easily as they used to be at 1*s*. 4*d*. ratio in the past. There may be import merchants who have made contracts at 1*s*. 6*d*. ratio and who shall be put to loss. In the first place, these importers, who had no reason to have absolute reliance on the continuance of the 1*s*. 6*d*. ratio would have mostly " covered " their exchange. But if there remains some, who did not protect themselves in this manner, all that my Committee can say is that whenever important measures for the welfare of the whole community are taken, the hardships and losses affecting a portion of the community have got to be tolerated. The exact time for taking the above decision if for the learned Commission to fix so that steps may be taken to ensure the least possible disturbance and trouble to all concerned. At the same time, my Committee venture once more to emphasize the necessity of taking action at the earliest hour possible. The Committee feel sure that if the gold price of the rupee is fixed as suggested and gold is made freely convertible into notes or sovereigns, an immense amount of gold which the country has taken in at 1*s*. 6*d*. will be released and will become available for trade purposes. The net effect will thus be very beneficial to general trade.

QUESTION IV.

12. *Gold Exchange Standard or the Gold Standard.*—It is the deliberate opinion of my Committee that the existing system of our Currency and Exchange —the Gold Exchange Standard—is defective in principle and has fully proved in practice its inherent weaknesses. It was put to a severe trial in 1907 and 1908 and was saved from a total collapse almost by a chance. Its working during the last 5 or 6 years, in spite of the expert findings of the Babington-Smith Committee, is its own condemnation. At the end of the War, India was economically one of the most favourably situated countries in the world. She should, therefore, have been able to tide over the natural reaction that subsequently overtook the whole world, including India, much better than she has done. She should have been able to place her industries, commerce and general trade on a sound and prosperous basis by now, if not much earlier. Facts prove the contrary. National industries are in a precarious condition. Trade is slacker than even in the almost bankrupt States of Europe. The agriculturist has got very poor purchasing capacity left. Neither imports nor Indian manufacturers are finding a good market. It is true, it is neither possible nor proper to trace all this to one cause. There are various complex factors and forces that have combined to bring about the present deplorable state. But a fairly large share of the responsibility for our existing and persisting difficulties will go to the mismanagement of a defective system of currency and exchange.

13. The Fowler Committee in 1898 made the very sound recommendation that India should be placed on the Gold Standard. The Government seemed to accept it and the people welcomed it with one voice. The preliminary important measures, which, it was expected, would as a matter of course lead to the establishment of the full gold standard, were adopted. India's standard coin for international purposes became the gold sovereign, for the coinage of which the Currency Committee recommended the establishment of a branch of the Royal Mint in India. For internal circulation the rupee was retained as a token, and allowed to circulate as unlimited legal tender till other conditions necessary for adopting the gold standard were fulfilled.

14. Gold standard reserve was formed. Profits of the rupee coinage were year after year set apart and a substantial reserve of gold thus accumulated in a few years. Exchange which in effect was legally fixed at 1*s*. 4*d*. worked smoothly and successfully for a number of years. When thus time became ripe for the promised introduction of the full gold standard, theorists stepped in with their theories. Their argument was that the gold exchange standard was as good as gold standard so long as the rupee was convertible into gold at will for export, that gold currency in a country like India would be highly wasteful and increase the already great absorption of bullion in India. People who considered gold currency essential to the gold standard were ridiculed.

15. The Currency Commission of 1913-1914 that sat under the Chairmanship of Right Honourable Chamberlain considered the whole question again and gave their verdict in favour of retaining the prevailing system with certain modifications. The idea of India's going over to the full gold standard was thus finally given up. That was, in the opinion of my Committee, when we took a wrong turn. The Committee believe that the real gold standard was the only permanent remedy of India's as it has been of every other country's currency and exchange troubles. Let their meaning be not misunderstood. My Committee accept without reservation the expert's view that the best currency system is the one which has gold for international payments and the paper backed by gold reserve for internal circulation, silver supplying the needs of subsidiary currency as token coins. But they do not subscribe to the position of the supporters of the Gold Exchange Standard, who maintain that it is as good as the gold standard. The former can with special circumstances behave almost like the silver standard. In fact, the difficulties connected with the silver standard had to be faced during the abnormal rise of the price of silver in 1918 and 1919. The rupee then became more valuable as bullion than as coin. The exchange, therefore, fluctuated with every rise or fall in the gold value of silver. It was to remedy this defect in the system that the Babington-Smith Committee suggested the adoption of the impossible ratio of 2*s*. from the mistaken belief that the prices of silver and of commodities would remain very high for many years.

16. Besides this, my Committee believe that the Gold Exchange Standard has given birth to an elaborate and complex machinery wholly controlled by the Government, and the working of which is little grasped by the layman and can be less influenced by the financier, the business man and the publicist. It necessitates the keeping of reserves of bullion and securities simultaneously in London and India for facilitating the adjustment of international accounts. The worst part of it is that the exchange operations are not automatic but have to be managed by the Government. This power is liable to be misused. In fact it was misused, mostly owing to the inherent defects of the system, in the course of management of the notorious sales of Reverse Council Bills up to 1920 resulting in great losses to the State and depletion of the Reserves. Further the rupee—the note printed on silver—has not been convertible internally into gold. The rupee has been compared to a note, but a note under the gold standard system should be convertible into gold, not silver. Even a greater objection lies against the Paper Currency being redeemable not in gold but in rupees which are token coins.

17. Under the circumstances, my Committee suggest that effective steps should be taken immediately to ensure India's going over to the full and real gold standard at an early date. The time considered necessary to intervene in order that precedent conditions be fulfilled before the gold standard is established, will be decided by the measures taken and their ultimate success. My Committee have after full consideration come to the conclusion that for full gold standard to obtain a permanent footing in India, we will have to impose a limit to the amount for which the rupee shall be legal tender. Let the amount in the beginning be as large as possible, so that people should not feel the discomfort of a sudden change and prepare themselves for the ultimate stage. If the effect of the said imposition of limit be, as it is expected it will, to replace the rupee by notes and sovereigns for large payments and if as a result the sovereign is extensively used it would not be difficult to further limit the amount for which the rupee shall be legal tender and ultimately to make the rupee legal tender for not more than 100 rupees. The object of the Committee is to limit the circulation of the rupee. But they are, at the same time, of opinion that gradual steps should be taken to achieve that object in a number of years. As a first step in the direction, my Committee suggest that fresh rupees should on no account be coined hereafter, and that fresh currency should be issued only against gold. It is expected

that in course of time the circulation of the rupee will decrease to a considerable extent. Time may then come for what is termed the "Demonetisation" of the rupee. No doubt, the declaration to demonetise silver, whenever it comes, will have the immediate effect of depressing the price of silver. But if it be considered in the best interests of India to limit the circulation of the rupee, this difficulty cannot stand in the way. My Committee however will be satisfied if the principle underlying their suggestion is accepted. When and how to translate it into action may rest with the Government of India.

18. From what the Committee have said above, it should be clear that the stability of the rupee will henceforward rest entirely on the reserve of gold that India will have. Therefore the first efforts will have to be directed towards having a strong reserve. The Committee also believe that as a result of free minting and free inflow and outflow of gold a very large amount of gold which the people have recently purchased will come to the currency reserve. India will, in settlement of her favourable balances of trade also secure gold in a fairly large quantity every year. That portion of the gold standard reserve which is kept in London should be kept in India. Besides, other means that the experts may be able to devise should be practised. Moreover, my Committee advise gold in circulation and venture to point out that gold currency in circulation will constitute a very strong support to the Exchange.

19. *The Gold Standard Reserve.*—As regards the composition of the gold standard reserve, my Committee are of opinion that the whole of the reserve should be kept in gold. It is difficult to suggest a definite figure for the size of the reserve. The reserve will be required (1) to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange falling below the specie point, and (2) to provide for maintaining the convertibility into sovereigns of notes of rupees in circulation. It is obvious that the present size of the reserve will be insufficient to meet the requirements mentioned. The reserve will therefore have to be considerably added to. The exact limit will be decided by experience and circumstances. As to the location of the reserve, my Committee are unequivocally of opinion that the whole of the gold standard reserve should be held in India.

QUESTION VI.

20. *Policy as to minting of gold in India.*—My Committee suggest that a Gold Mint should be opened in India at an early date and that it should be thrown open to the unrestricted coinage of sovereigns or Gold Mohurs of the same weight and fineness as the sovereigns. We see, nowadays, trade constantly complaining against stringency of money and consequent high rates of interest. When the Mint is established everybody will have the opportunity to take his gold to the Mint or the Imperial Bank of India, as the case may be, and get notes or sovereigns instead. Gold is imported in enormous quantities every year in settlement of India's favourable trade balance. Even after deducting the amount of gold required for consumption as bullion, there remains a large surplus floating in the Bazar as long as the season is in its full swing. Thus instead of facilitating trade the imported gold blocks up even the existing supplies of currency and thus acts as a great hindrance to the general trade of the country at a time when money is greatly needed. All this gold at present lies unproductive, but if there be free gold the public being sure of getting gold at any time, will willingly part with their hoarded gold in exchange for notes by delivering the same to the currency department of the Imperial Bank. Thus circulation will adapt itself to the needs of trade and industry.

21. As to the second point whether obligation should be undertaken to give gold for rupees, my Committee have suggested that the rupee should be made a limited legal tender. If this proposal is accepted the question will lose much of its force. My Committee, however, are of opinion that before imposing a limit on the amount for which the rupee should be legal tender, it should not be declared convertible into gold for internal use. But whether the rupee remains unlimited legal tender as now or not, for *bona fide* export purposes gold should certainly be issued against rupees, but only at gold export point. My Committee want that the unproductive gold should come to the Mint and the place of rupees should be taken by the Currency or Bank notes. It would be, in the Committee's opinion, very undesirable to substitute all at once the whole of the rupee currency with an equal volume of the gold circulation.

Question VII.

22. *Remittance operations of the Government of India.*—These operations should in future be conducted either by the Government or the Imperial Bank of India buying exchange from the Exchange Banks in the market in the same way as other private agencies. In nine years out of ten the Home Charges will be set off against the payments that India will be entitled to receive for the excess of her exports over imports. In the event of failure of crops, and there being consequently an excess of imports over exports, or in case of accounts being balanced, the Government or the Bank may create temporary credits in London by taking loans. But ultimately gold will have to be exported for the Government as well as for trade remittances. My Committee are in favour of the Imperial Bank managing the remittance operations. The Bank will be in a better position to conduct these operations to the best advantage of the country.

Question VIII.

23. *Elasticity of Currency.*—See the Committee's answer to Question VI. Besides that, in order not only to meet small seasonal demands but also even those large demands from the public which, with the development of concentrated industrial and banking enterprises, will become irresistible, a greater elasticity may be provided for by granting to the Imperial Bank, if and when it is entrusted with the function of issuing notes, a power to issue notes to a fixed maximum figure against reliable bills of exchange and also against Hundis discounted by reliable Banks. The Government of India may also be empowered to issue emergency currency on their own responsibility on occasions of serious financial crises to a certain extent, the maximum limit of which must be fixed.

Question V.

24. *Transfer of management of currency to the Imperial Bank of India.*—My Committee in this connection are of opinion that it is the best policy to entrust the issue of notes to an agency which can command fullest confidence, has unimpeachable credit and which should be considered to be the least liable to succumb to the temptation of misusing its powers. The Government of any country does not possess all these qualities, and that is why almost all the countries have entrusted this function to their respective State Banks. The Indian Government as it is at present constituted is not expected to command even as much confidence as others do. It would therefore be very desirable to transfer the control and management not only of the note issue but of the whole execution of the currency policy of India to the Imperial Bank of India. But before doing so, the Directorate of the Bank must be made fully representative of Indian interests in order to be able to deserve the national confidence. The Bank should not be allowed to do foreign exchange business on its own account any longer. This arrangement will, in the Committee's opinion, enhance the prestige and reliability of the State Bank. The Issue Department of the Bank must be kept entirely separate and distinct from the Banking Department. Reasonable remuneration may be given to the Imperial Bank for the management of the Issue Department. The detailed terms of the transfer will be better suggested and drawn up by the specialists in the line.

25. As to the backing of the note issue, my Committee are of opinion that at no time should the gold reserve against the Paper Currency be less than 50 per cent. of the total note circulation. Even a higher limit may, for the sake of safety and security, be kept. The securities should be such as to be easily realisable in times of sudden needs.

26. The Imperial Bank of India should open its branches all through the length and breadth of the country not only in districts but also in small country-towns. Before this is done the net work of treasuries may be made use of for this purpose. All "universal" notes should be easily convertible into sovereigns all over India. In the opinion of the Committee it is very undesirable to re-issue one rupee notes. The public sentiment is decidedly against its re-issue. The experience that the public had of the previous small notes which were worn, soiled and spoiled in a very short time and which caused great loss to the holders, has discouraged the people.

27. In this connection when the Committee have expressed their views on the transfer of the control and management of the currency, they consider it to be their duty to lay all the emphasis that they can command on another very important side of the question. The currency policy of India has been controlled

by the Secretary of State and his advisors in London. It is unfair to expect the Secretary of State who is dependent for his existence on British votes and who would naturally be anxious for the protection and profits of British interests, to consider Indian interests first and foremost on any important question, the decision of which may affect unfavourably or otherwise the interests of his voters. Without seeking to import politics in the discusson of a purely economic question, my Committee want emphatically to urge upon the Commission the immediate necessity of transferring the power from the hands of the Secretary of State to the Indian Government controlled by the Indian Legislature. Human nature is such that the very same measures which are sometimes criticised by the public at present, would meet with better reception if the final power and responsibility to execute the currency policy of the country were in the hands of the representatives of the people. Taking everything into consideration, my Committee hope that the Royal Commission will be pleased to give their earnest consideration to this most important aspect of the problem before them.

APPENDIX 31.

Statement of evidence submitted by Mr. Chunilal B. Mehta, Cotton and Bullion Broker and Commission Agent.

The time is fully ripe for solving the problems of Indian Exchange and Currency by active measures leading India to Gold Standard.

Though the Government of India were able to maintain a Gold Exchange Standard for about 20 years during the world war crisis, the same was loosened by all its screws. And since then, it has been admitted and accepted throughout the world that Gold Standard is the only ideal Standard.

At present in many civilised countries there is Gold Standard without Gold Currency. But in India until the people are more educated and civilised, Gold Currency is a necessity.

Other countries have taken 10 to 20 years for reverting to the Gold Standard. And the period thus required is called " Transition Period ".

It is quite certain that besides the Transition Period, India shall have to pay a very heavy price for coming to Gold Standard with Gold Currency.

During the Transition Period three things shall have to be done :—

1. To fix the Exchange Value of the rupee during Transition Period.
2. To acquire necessary amount of gold gradually.
3. To dispose of excess silver rupees gradually.

Since about a year rupee is well steady at a certain level, and in view of the other circumstances, rupee can be fixed and maintained.

Secondly, gold can be secured gradually without increasing its price.

But the problem of disposal of vast amount of silver is very difficult and complicated. If we go to the world markets for selling the silver, it is quite certain that it would fetch a very low price, so low it would be that we could not afford to sell at the price.

On the other hand, it is also certain that India does require a substantial amount of silver for her internal social and industrial purposes.

In view of the above my suggestions are as follows :—

1. Import of silver bullion, coins, etc., be prohibited in India during the Transition Period.

2. Government of India should sell silver bullion for internal requirements of India, by melting silver rupees.

Minimum requirements of India can safely be taken as 40,000 bars per year. (One bar is equal to 1,050 ozs. or 2,800 tolas.)

In order to get the silver bullion of 40,000 bars, rupees 12 crores should be melted every year.

*The same should be sold to the public at the rate of about Rs. 80 per 100 tolas. It would realise Rs. 9 crores. The deficit of Rs. 3 crores every year should be met by the Government either from the Revenue or from the interests received

* Mr. Mehta subsequently submitted a modified statement making the following amendments to figures quoted in this and the following paragraph :—
For 80 read 71, for 9 read 8, for 3 read 4, for 9 read 8, for 3 read 4.

on the securities in the Gold Standard and Paper Currency Reserves. (The deficit cannot be called loss, as the profits made by minting bullion into rupees have already been earned or taken by the Government, and now the same are required back for reversing the transaction.)

Rupees 12 crores (Rs. 9 crores by the sale of silver bullion and Rs. 3 crores from the Government) thus secured should be utilised in buying gold every year, and minting the same into gold rupees. (Details of the gold rupee given hereafter.)

Present Bombay price of silver is Rs. 72 per 100 tolas. And present London price of silver is 32*d*. per ounce. It is quite likely that London price might decline if silver imports in India are prohibited. Yet the price of Rs. 80 per 100 tolas suggested by me for disposing Government silver cannot be called unreasonably high as till recently there was an import duty on silver amounting to about 15 per cent. on the value.

In case there is a greater demand than 40,000 bars a year, Government should supply the same by melting more rupees. In case the Government cannot meet all the deficit, I suggest that the balance of the deficit not met by the Government should be made good by the cancellation of currency notes to that extent.

3. A gold coin having gross weight 180 grains troy, and having 165 grains fine gold should be minted from Rs. 12 crores mentioned above every year.

It should be made exchangeable for 20 (twenty) silver rupees. It should be named or called a gold rupee.

It should be declared a legal tender in any amount. During the Transition Period, the Government should not undertake the obligation to give gold rupee in exchange for silver rupees or currency notes. But the Government should undertake the obligation to give silver rupees in exchange for gold rupee.

Gold rupees thus minted should not be issued to the public for circulation for first two or three years. But after that a beginning should be made to issue every year a certain number of gold rupees to the public, increasing the quantity every year.

If more silver is sold, more gold rupees should be minted to that extent.

4. Present silver rupees should not be minted any more.

5. All future Currency Notes should be issued with the provision—" Payable either in Gold Rupees or in Silver Rupees at the option of the Government "—.

6. All future loans of the Government as well as public bodies should be issued with the same provision as mentioned above in No. 5.

7. During the period present silver rupee value should be fixed at 1*s*. 6*d*. gold.

8. After a period of about 7 to 10 years, when the Government have disposed of sufficient excess silver rupees and have sufficient gold rupees in reserve and in circulation, present silver rupee should be declared a subsidiary coin limiting its tenderable quantity and abolishing its fixed exchange value.

9. Restrictions on silver imports, then, should be very gradually relaxed and finally entirely removed taking care that wide fluctuation does not follow.

It is quite clear that my suggestions ask for a heavy price from the Indian Government as well as Indian people, but I think there is no way out of it. It is a bitter pill for both, but the disease is there and earlier the remedy the better for all.

This is the time and the opportunity to inaugurate the Transition Period with a well-fixed programme for reaching to the goal of Gold Standard. It is certain that if a beginning is now made, it will take at least 10 years to complete the programme. But if this opportunity is lost it is also certain that the question of Gold Standard for India will be shelved—at least for the present—for ever.

Finally, to fix the Exchange value of rupee at 18*d*., or at 16*d*., or at any other point, without putting into operation the workings of a well-fixed programme for Gold Standard—and with the sweet talks that India should get a Gold Standard with gold currency—will mean nothing but despair and disappointment to the Indian Nation, making her hopelessly await for more Royal Commissions.

APPENDIX 32.

Statement of evidence submitted by the Honourable Mr. H. S. Lawrence, C.S.I., I.C.S., Finance Member of the Government of Bombay.

The Austen Chamberlain Committee of 1913 made the following important recommendation:

" But while educating the people of India in the use of more economical forms of currency, it is important that Government should continue to act on the principle of giving the people the form of currency for which they ask (para. 74)."

" Any attempt to refuse gold to meet these legitimate demands would be unjust and foredoomed to failure, and could only cause alarm and instability (para. 75)."

2. The Babington-Smith Committee of 1919 in para. 66 accepted in principle the recommendation of the Chamberlain Commission regarding the provision of such form of currency as the people of India might demand, whether rupees, notes or gold.

3. The International Conference in 1922 were alarmed lest the uncontrolled resumption of gold standard might lead to catastrophic consequences.

Authorities seem to be very strongly divided on the question whether there is likely to be a surplus of gold or a shortage of gold. The Genoa Conference considered the risk of the shortage of gold as the more serious. Representatives of various countries were prepared, it is understood, to accept a gold exchange standard which imposed on certain countries, notably the United States and United Kingdom, the responsibility of maintaining stores of gold, while they hoped to secure the advantages without paying the cost.

The demand for a gold standard together with a gold currency has many advocates in India. The view is widely held, particularly in political circles, that a gold standard and a gold currency are more appropriate to the dignity of a great country: but the advocates of this view do not refer to the discussions of the Genoa Conference: and are possibly not acquainted with the contrary arguments.

4. A Currency Policy may in theory be considered apart from its reaction upon trade and industry; but if a policy be adopted which creates a revolutionary disturbance of the established position in trade and industry it may, however perfect in theory, be the cause of violent disorders imperilling the basis or society. For example, such a disturbance may arise from a change in the real value of wages. If gold be appreciated greatly by a sudden new demand, salaries and wages will not adjust themselves to the new standard of values until some time has elapsed.

Recent similar experience of the Continent teaches us that during the interval there must be strikes and upheavals of social relations, which are fraught with peril to the social fabric; which bring inevitable disaster to the poor and ignorant, and are liable to the manipulation and intrigues of High Finance.

A Currency Policy unwisely adopted may therefore intensify the disruptive forces of civilisation and cannot be considered in terms of scientific technique alone.

Stabilisation of the Rupee.

5. Since the rupee has remained stable in the neighbourhood of 1*s*. 6*d*., for over a year now, there is every reason to suppose that it could be stabilised at about that rate.

6. In this interval trade in India has been fairly prosperous. The balance of trade, other than bullion, has been in favour of India, to the extent of many crores, and equilibrium was maintained in 1924-25 by the importation of gold approximately 75 crores and silver 25 crores. There is reason to believe that the importation of gold bullion and sovereigns of over 200 crores in the last 6 years has supplied the demand which during the war could not be met, and that the country is now fairly replete.

If this be true and if the succeeding monsoons are good, the balance in favour of India would tend to raise the rupee to a higher value.

7. The policy of the Government of India has been recently directed, it is understood, to the prevention of a rise of the rupee above 1*s*. 6*d*. So long as silver does not rise in value above the parity of the rupee, it appears possible for the Government of India to control the upward movement of the rupee.

8. Since there is no clear indication that the interests of the country have been injured by the variation in the level of exchange in the last few years there does not appear to be any urgent necessity for measures of stabilisation.

On the other hand, conditions of trade seem to have assumed a degree of steadiness; and the restoration of sterling to its gold value removes one of the prime factors of instability; and it may be admitted that the time is therefore ripe for the execution of such reforms as have been demonstrated to be advisable by recent experience.

9. Stability in internal prices is of greater importance than stability in foreign exchanges: inasmuch as the first affects the interests of myriads who through ignorance and poverty are unable to protect themselves; while the latter operates primarily on merchants of intelligence and wealth who can utilise financial machinery to insure themselves against loss.

10. A rising rupee encourages imports and a falling rupee encourages exports. The encouragement in each case is temporary until wages have been adjusted to the new levels.

11. During the period of transition merchants and other middle men make larger profits at the expense of producers or consumers.

For example, on a rising exchange an importer contracts for £100 worth of steel when the rupee is at 1*s*. 4*d*. and expects to have to remit Rs. 1,500. When the steel arrives, if the rupee has risen to 1*s*. 8*d*. he has to remit Rs. 1,200 only.

On a falling exchange an exporter contracts to sell wheat for £100, and in a similar case of a fall from 1*s*. 8*d*. to 1*s*. 4*d*. in lieu of Rs. 1,200 he receives Rs. 1,500.

The advantage ordinarily goes to the middleman, not to the ryot; and the advocates of the low rupee will be found not infrequently to be the export merchants who benefit by the falling rupee.

12. Some confusion of thought appears to exist on the subject, and while it is argued that a low rupee causes the export trade to expand and benefits the ryot, yet if the facts are analysed, the expansion of trade may be traced to the advantage gained by the exporter during the period of a falling rupee.

13. Some advocates of this school of thought appear to regard the depreciating currency of continental countries as a positive advantage, and have failed to give due weight to the strenuous efforts which such countries as France and Italy are making to raise their exchanges. When the fall in the franc or the lira is regarded as a national disaster in France and Italy, it is difficult to support the propaganda in India in favour of a depreciated rupee.

14. When stable, a high rupee tends to reduce, and a low rupee to raise all prices in India. For example wheat has a world price, and the internal price in India is governed by the export price. If a ton is sold for export for £10 the price in India will be Rs. 150 at 1*s*. 4*d*., or Rs. 120 at 1*s*. 6*d*., or Rs-5-6as. per maund in the first case and Rs.4-5as. in the second.

The price of wheat reacts on all other food grains and thereby on wages, and the cost of production in every industry.

Every industry in the cost of production of which wages form a serious item is in this way assisted by a high rupee.

15. The problem is of course not free from complications; for a high rupee facilitates foreign competition. For example, steel and cloth may be imported on more favourable terms with a high rupee. But here again it is necessary to distinguish between the effects of a rising rupee and a high stable rupee. With a rising rupee internal costs of production will not have fallen, and the competition tends to be unfair. When the high rupee is stable the costs will fall and the industry will compete in a fair field. In the interval the industry has a claim to protection. India has adopted the principle of discriminate protection. This principle has not yet been applied to a case of rising exchange: and it is doubtful whether the need for this discrimination has as yet been recognised in India.

16. The principle was accepted in the orders passed last February for the safeguarding of Industries in England, and was put into force in Australia on March 25 last for protection against the depreciation of Japanese currency.

Since the Government of India must attach full weight in their currency policy to the opinions of Indian politicians, so far as is possible, it is perhaps permissible to suggest that the agitation in favour of a low rupee has been

intensified by the omission of the Government of India to take such measures for the safeguarding of Indian Industries as are being put into force by the English and Australian Governments. If the Indian Industrialists were assured of such protection, the opposition to the recent currency policy of the Government of India would lose much of its force.

17. The Currency Commission are not concerned with tariff policy. But I venture to submit that they are concerned to know what are the currents of public opinion in India which will effect the reception of their proposals. Bombay is especially interested in the Industrial development of India; and the recent creation of the Tariff Board was regarded as the first fruits of a new policy. But the hopes it excited have been greatly disappointed by the rejection by the Government of India of most of the proposals made by the Tariff Board; and where those proposals have not been rejected, they have been greatly reduced. The suspicion is thereby aroused that the Government of India were reluctantly forced into the acceptance of a policy of protection; and that they take every opportunity of abstaining from implementing that policy.

18. (While I am attempting to explain the feelings which are at the bottom of the present agitation regarding the Currency Policy, I wish to guard myself against any imputation that I accept this feeling as well founded).

These hostile critics allege that when the Government of India assert that their policy is directed to protect the Agriculturists against the exploitation of the Industrialists, they are insincere; for the policy is in fact directed to the fostering of English Industrialism at the expense of Indian Industrialism. And they go further. They allege that this policy is not only insincere but is also completely mistaken.

19. The demand for products of English industry does not arise from the agriculturist but from the Indian Industrialist; and any attempt to squeeze out the Indian Industrialist between the Agriculturist and the English Importer fails disastrously in its object.

The prosperity of English trade depends on a market for high class goods. If Indian industries are prosperous, that market can be expanded to an unknown limit. The share of the Indian Agriculturist in imported goods is confined to cheap articles imported from the continent and other countries. If this market were preserved for the Indian Industrialist he would prosper and his prosperity would react on English trade. This theory clearly leads directly to a policy of Imperial Preference or rather Preference confined to imports from the United Kingdom.

This is a brief summary of the economic theory held, if not expressed, by an important school of thought in Bombay.

20. I turn now to take the instance of the effect of a stable high rupee on a branch of Industry such as cotton mills and of agriculture such as cotton cultivation.

First I compare the effects of the rupee at 1*s*. 4*d*. and the rupee at 1*s*. 6*d*. on the scale of cotton goods.

The competition between English imported cotton goods and the Bombay Mill products has been stated by the Bombay Millowners' Association to be negligible. The high grade goods of Lancashire affect the richer class of consumers and the lower grade goods of Bombay affect the poor class of consumers. With the higher rupee the middle classes in India are able to obtain their cotton clothing at a smaller cost in rupees. Though the market is broadly speaking different, yet there is a margin of overlapping; and a fall in the rupee price of Lancashire imports induces a fall in the rupee price of Indian Mill products. The Mill industry therefore secures fewer rupees.

On the other hand the Indian Mill Industry pays out a smaller sum for the machinery and the Mill stores which are imported, and which represent an annual outgoing calculated by the Bombay Millowners' Association at 7 per cent. of their expenditure.

The higher rupee reduces at once the price of cotton, other things being equal, for the large portion of cotton grown is exported.

Thus in 1923-24 out of five million bales of cotton 3¾ millions were exported; and on an average some 60 to 70 per cent. is exported.

The cotton price is therefore a world's price fixed in gold; and if the rupee is higher, the rupee price falls. The cotton mills, therefore, with a stable high rupee obtain supplies of cotton at a cheap rate.

The cost of raw cotton represents 60 per cent. of the outgoings of the mill industry; and the cost of production is therefore largely reduced by a high rupee.

21. Wages in cotton industry represent 10 per cent. of the outgoings. In so far as a high rupee reduces the price of food-grains and the cost of living of the mill-hand, it justifies a reduction in wages but there is necessarily a lag during the period of adjustment.

22. On the other hand it is argued that if there is a fall in the prices due to a high rupee, the cultivator has fewer rupees with which to buy cloth. This statement would be correct only if the price of cotton cloth does not fall *pari passu* with the fall in agricultural produce. In fact it may be confined to the period during which cotton cloth made from cotton bought at a higher level of prices is being disposed of.

23. In regard to the agriculturist's interests in general, it is sometimes argued that the cultivator is injured by the higher rupee inasmuch as his payments of Government revenue were assessed on a lower rupee. It may be pointed out that the share of agricultural produce taken in Government revenue is often exaggerated in public discussions.

The Land Revenue of the Bombay Government is approximately 5 crores. No accurate estimate of the value of agricultural produce can be formed; but an estimate was framed by the Government of India which placed the figure at 135 crores. If it were assumed for the sake of argument that the change in the value of rupee from 1*s*. 4*d*. to 1*s*. 6*d*. reduced the value of agriculture produced by 11 per cent., then the agriculturist would be paying his 5 crores out of a total of 120 crores instead of 135 crores. His burden will be increased from 3·7 per cent. to 4·1 per cent. But since his other outgoings would be similarly decreased, there is no reason to believe that he would be injured in any degree as soon as the high rate had been stabilised.

24. There remains the question of National Finance. The figures have probably altered little since the Report of the Commission of 1919 that the Home Charges on

Rupee at 1*s*. 4*d*. amount to 33 crores.

Rupee at 1*s*. 6*d*. amount to 29·3 crores.

Rupee at 1*s*. 8*d*. amount to 26·4 crores.

An economy of 3 to 4 crores a year is worth obtaining, but it is not an argument that is by any means conclusive.

25. To conclude, the arguments above stated may be summarized to indicate :—

(*a*) That the principal interest of India is in the range of internal prices, the prevention of further increases and the gradual reduction of present prices.

(*b*) That the further course of silver cannot be foretold. The vagaries of the China market have never been understood or explained; but unless a fresh demand in China should disorganise the market, as in 1919-20, the Government should be able to control the rise of the rupee.

(*c*) With the balance of trade greatly in favour of India, the rupee if uncontrolled would probably rise to a moderate extent. It is probable therefore that the Government of India would be able to stabilise the rupee at such moderate rate as they may decide; but a return to a 2*s*. rate would be unwise.

(*d*) The rate of 1*s*. 8*d*. would probably be possible. But in order to avoid unnecessary disturbance in trade and commerce the present existing rate of 1*s*. 6*d*. between the gold points should be adopted and would be most easy to defend.

APPENDIX 33.

Statement of evidence submitted by Dr. Promathanath Banerjea, Minto Professor of Economics, Calcutta University.

The abnormal conditions created in India by the war and its aftermath have now practically disappeared. The agricultural situation is quite fair. The depression in industrial activity which began a few years ago still continues, but signs of a revival in the near future are not wanting. Trade has already made considerable progress towards recovery. The financial position of the Government is satisfactory, and the era of deficits has now come to an end. World conditions are also gradually approaching the normal. Most of the countries with whom India maintains trade relations have now stabilised their currencies on a basis of gold, and Great Britain has recently returned to the gold standard. Indian merchants and statesmen have for some time past been demanding active measures for a solution of the problems of Indian currency and exchange. The time, therefore, seems to be ripe for making an earnest effort to secure monetary stability in India.

2. The question of the comparative importance of stability in internal prices and in foreign exchanges need not worry us overmuch. The internal trade of India is many times as large as her external trade. Therefore, looked at from the standpoint of volume of transactions, stability in internal prices seems certainly to be more important than stability in foreign exchanges. But, absolutely considered, the foreign trade of India is large enough to merit serious attention. If there is one thing more than another which disturbs the course of commercial and industrial activity it is uncertainty of exchange. It should be remembered in this connection that there is not only no conflict between stability in internal prices and stability in foreign exchanges, but that the two are, to a considerable extent, closely inter-related.

3. The effects of a rising or a falling rupee are well understood. A rising rupee tends to discourage exports and encourage imports. When exchange rises, the exporter gets a smaller number of rupees in return for his goods. Exports from India consist mainly of raw materials. Such articles as are in the nature of monopolies are not adversely affected to an appreciable extent, if the rise in exchange is small. But when the rise is considerable, the export trade even in monopolies tends to be checked. It should be borne in mind in this connection that there are very few articles which may be regarded as absolute monopolies. When prices rise very high, substitutes for monopolies are often found and there is thus the risk of a complete ruin of the trade in these articles. In the case of commodities of which India is only one of many producers, the price in the world's markets does not, as has been pointed out by Professor Jevons, " respond to the rise of the Indian exchange, and the supply of these commodities from India may cease altogether, or can only be continued at a lower cost of production—in other words, wages and profits must fall, or cheaper means of producing the commodity must be found, as by introducing improved methods or machinery."

4. A rising exchange by reducing the rupee prices of imported commodities places the locally-produced goods at a disadvantage. The home industries thus find the competition of foreign industries more keen than before. The stronger and well-established industries are able to stand the severer test, but the weaker and nascent industries may perhaps find the strain too heavy and may even succumb to it. When this happens, the industrial development of the country is necessarily retarded. The effect of higher exchange is thus injurious to industry as well as agriculture in India.

5. The different classes of society are differently affected by a rising exchange. Consumers gain, while producers incur a loss. Creditors reap an advantage, but debtors suffer. The effect on national finance is beneficial, for the Government are able to meet their foreign obligations with a smaller number of rupees. But what is gain to the Exchequer is loss to the taxpayer. The taxpayer pays the Government the same number of rupees as before, but the rupee is now worth more than it was.

6. The effects of a falling rupee are the reverse of those of a rising rupee. Exports are stimulated, while imports are checked. These effects are, however, temporary. They cease as soon as wages, profits, etc., readjust themselves to the new conditions. But readjustments always require time to be completed, and the process is not always smooth. Nor is the period of transition necessarily short.

7. Let us now consider the permanent effects of higher exchange. The rupee becomes an overvalued coin, and the general price level is lower. Wages and profits are in the same relative position as they were before the transition commenced. There may, however, be some classes of persons who are unable to adjust their position to the new conditions, and they are adversely affected by the change. The effect of higher exchange on the country as a whole is adverse, so far as its foreign trade is concerned. India's exports exceed her imports in value by a large annual sum, varying from 60 to 80 crores. Higher exchange thus means considerable loss on account of this trade balance. As against this loss, the Government of India are able to effect a saving in Home Charges, for they are required to remit a smaller number of rupees. But, as we have already seen, the amount thus saved really comes from the pockets of the people.

8. The question which presents itself at the present moment is not so much the stabilisation of the rupee as the adoption of a sound currency system. The gold exchange standard has failed to satisfy the tests of a sound system. It has always shown a tendency to break down as soon as there has been a crisis. Besides, it has been attended with many evils in the past. The utilisation of the reserves for purposes other than those for which they were originally intended, the fixing of the exchange rate at a figure which was found impossible to maintain, the method adopted in purchasing silver, and the enormous losses consequent on the sale of reverse councils are instances in point. Management is not a bad thing in itself, but it can prove a success only when the persons entrusted with the work are possessed of perfect wisdom and the highest degree of honesty. But as is pointed out by an eminent economist, experience has shown that the control of currency is liable to the gravest abuses. In India, which is still a subject country, the possibility of the occurrence of abuses is much greater than in other countries, and management should cease, if for no other reason, in order to remove the suspicion from the public mind that Indian currency is often manipulated in the interests of England. Besides, India has now developed a large foreign trade of her own, and it is very undesirable that her currency should continue to be linked with that of another country. It is "risky," to use the words of Sir Basil Blackett, "to tie the rupee to the chariot wheels of the Bank of England." Nor can sentiment be altogether ignored in matters of this sort. The gold exchange standard is regarded as the brand of subjection and inferiority, and, naturally, Indians feel that the system should be altered.

9. Now, what is the alternative to this standard? It is impossible to go back to the silver standard. The standards based on index-numbers which have been advocated by several economists present difficulties which appear insurmountable at the present moment. An exchange standard for the whole civilised world based on gold kept at a central place will be possible when the League of Nations is able to command the confidence of all nations, great and small, and the habit of inter-action becomes full established. For the present, the adoption by India of the gold standard seems to be the only solution of her currency problems. This is the system which makes the largest measure of automatic regulation possible. Besides, gold has now once more established itself as the international standard of value. India's trade relations are mainly with gold-using countries, and these can only be satisfactorily maintained by the adoption of gold as the medium of exchange. From the standpoint of stability of commodity prices, the gold standard is not an "invariable standard." But as Dr. Gregory points out, the value of gold is not likely to fluctuate widely within short periods of time and the gold standard necessarily involves stability in prices over the whole of the area in which the standard prevails. The gold standard is thus able to eliminate social and international difficulties much more successfully than any other standard. An incidental advantage of the adoption of the gold standard will probably be that a greater familiarity with gold coins will bring into use such quantities of gold as are now kept as a store of value in the shape of ornaments or lumps of the yellow metal. The change will also produce a desirable political effect. I therefore entirely agree with the view of an eminent person fully conversant with Indian conditions, who says: "The people of India will be safer with a currency based on gold, although the commodity value of gold is liable to fluctuate than with one dependent on the varying opinions of any body of men." It seems to me that the adoption of the gold standard is an economic, social and political necessity.

10. The main objection to adoption of the gold standard is that the use of gold as currency is uneconomical, especially in a poor country like India. The view is quite correct. But the adoption of the gold standard does not imply that

gold coins must necessarily circulate very largely. I am strongly of the opinion that no attempt should be made to force gold coins into circulation. In fact, with a gold currency gold is likely to be used only to a very limited extent. If the gold mohur is adopted as the principal coin, the actual medium of exchange will consist mainly of rupees and notes as at present. It is also hoped that the extension of banking facilities and the spread of education will lead to the greater use of cheques and reduce the importance of coins for purposes of circulation.

11. Another objection is that very little gold is mined in this country. But India has a favourable balance of trade, and in the usual course she will get enough gold for her currency purposes in exchange for commodities. It is apprehended in some quarters that the absorption of gold by India will result in shortage of the metal in other countries. This cannot be regarded as a valid argument for depriving India of her ligitimate share of the world's stock of gold. But, in reality, such absorption, if it takes place, will prove beneficial to the rest of the world as it will help to lower the international price-level. Lastly, the fear that the adoption of the gold standard will intensify the hoarding habit seems to be unfounded.

12. The question now is: What should be the relation between the gold coin and the rupee? Of course, when the rupee ceases to be the principal coin of the country, the question of ratio will become far less important than it is under the present system. Still, a ratio will have to be fixed. It is perfectly correct to say that there is "no ideal ratio." It may also be accepted without hesitation that the ratio should be such as is "easily attainable and easily maintainable." The 2*s*. ratio announced in 1920 is neither attainable nor maintainable, and as it is no longer in the thoughts of the Government it may be brushed aside. Shall we, then, adopt the ratio which prevails at the present moment? This brings us to the question whether the existing ratio is a natural or an artificial one. The view seems to prevail in certain quarters that the present rate has been worked up to by the Government. In the absence of fuller information than I possess just now I am unable to say whether this view is correct or not. But I am convinced that the conditions which are responsible for the existing rate are not of a permanent character, and I fully endorse the view of Sir James Wilson, who says: "The recent rise in its gold value to 8·4 grains may prove to be only temporary, as being due not only to the general fall in the commodity value of gold which has taken place over the world as a whole, but to exceptionally good harvests in India, which led to an increase in the demand for rupee currency. If the world's demand for gold increases, or the world's production of commodities overtakes the world's demand, then the general gold price of commodities will fall, the commodity value of gold will rise, and the gold value of the rupee will tend to fall. If India suffers from poor harvests and her exports decrease in comparison with her imports, there will be less demand for rupees, and the people who hold large hoards of rupees may feel compelled to put them into circulation and thus increase the available supply of rupees, which would tend to reduce the gold value of the rupee. Another fact should also be taken into consideration. The adoption of the gold standard by India is likely to result in a greater demand for gold, and consequently its value will rise. This will automatically bring down the ratio."

13. If this view be correct, the Government will find considerable difficulty in maintaining the 1*s*. 6*d*. rate. It seems desirable, therefore, to revert to the old ratio, namely, 1*s*. 4*d*. to the rupee. It should not be forgotten that for over two years the prevailing rate was below this figure, and any attempt to maintain a higher rate is likely to be attended with much risk. The 1*s*. 4*d*. rate was fairly stable for about 20 years. The relative price-levels in India and other principal countries of the world are very nearly the same to-day as they were before the war. All these facts point to the conclusion that the 1*s*. 4*d*. ratio seems to approximate closely to the natural ratio.

14. If this ratio be adopted, measures may become necessary to check any downward tendency of the rate that may show itself. This can be secured by a cessation or restriction of the rupee coinage and reduction in the volume of notes in circulation. In case these measures fail to maintain the ratio the gold standard reserve will have to be drawn upon to make good any loss that may be incurred on this account.

15. The adoption of a gold standard means that a gold coin is legal tender in India. The advocates of gold currency usually suggest that this coin should be the British sovereign as at present. But it would be better to give it an Indian name and call it a "mohur." In order to maintain the convertibility of the two coins at par, the "mohur" should be of the same fineness and weight as the

sovereign. The legal tender quality of the rupee will have to be limited. For the present, a high limit, such as Rs. 1,500 or 100 mohurs, may be fixed, but gradually this limit should be reduced to, say, Rs. 150 or 10 mohurs. Arrangements will have to be made for the free—but not necessarily gratuitous—coinage of gold, Although it is not necessary immediately to convert all silver coins into gold, yet it will be desirable to declare the convertibility of rupees into mohurs. This will secure the confidence of the public in the new currency system and prevent any great disturbance of the ratio of exchange.

16. The gold standard reserve should in future be employed in maintaining the ratio between the mohur and the rupee. As the coining of new rupees will have to be stopped, there will be no addition to the present size of the reserve. The reserve should be held mainly in gold, but a small portion of it may be invested in the Treasury Bills of the Government of India. The investment of the reserve in British or Colonial securities cannot be justified on any grounds, economic or political. With the disappearance of the gold exchange standard, the need for holding the reserve in England will completely disappear. The bulk of the reserve, if not the whole of it, should, henceforth, be held in India.

17. For the present the Government of India should continue to control the note issue. I am in favour of the establishment of a State Bank in India. The Imperial Bank of India holds an anomalous position, and it is very doubtful whether it is able to promote and safeguard the economic and financial interests of the people of the country. I therefore object to any substantial enlargement of its powers so long as its present constitution remains unaltered. If, however, it is converted into a State Bank, I would transfer the control of the note issue to it.

18. As regards the backing of the note issue, the percentage of metallic reserve to circulation is at present about 58. This should be gradually raised until it reaches 75 per cent., that is to say, a ratio in the neighbourhood of the pre-war average. If this is done, the issue of notes will be absolutely safe and be above all suspicion and distrust. The paper currency reserve should be held in its entirety in India where it is required. The investment of a substantial portion of it in England is an injustice to India.

19. The amplest facilities should be given for the encashment of notes, and notes should be made available in every town and in the more important villages in the country. They should be made redeemable either in gold or in silver at the option of the Government. If the rupee notes are found very expensive, they will have to be discontinued. The $2\frac{1}{2}$ rupee notes never became very popular, but in the absence of rupee notes they may come into greater use. The 5 rupee and 10 rupee notes should certainly be continued, but rupee notes of higher denominations should cease to be printed. Mohur notes should be issued according to the needs of the public, and they are likely to be found useful for large payments.

20. A gold mint should be established in India. It may be either an independent mint or a branch of the Royal Mint. This mint should be open to the free coinage of gold mohurs and half mohurs. A small charge may be levied to cover the actual cost of minting. There should be attached to the mint a Government refinery for refining gold. It would be necessary for the Government to undertake the obligation to give gold for rupees, in order to maintain the convertibility of the rupee.

21. The remittance operations of the Government should be conducted by means of public tender. For the present, the operations may be in the hands of the Government direct, but they will be best effected through the State Bank when it is established. There is not much harm in entrusting the Imperial Bank with the duty; but I am decidedly of opinion that the Imperial Bank is no substitute for a State Bank proper.

22. The seasonal demands for currency will be met to a larger extent in future by the free minting system under the gold standard. But the existing method of creating additional currency will have also to be continued. In introducing further elasticity into the system, the main principle to be observed will be to avoid the two extremes of undue stringency and inflation. This will require the exercise by the authorities vested with discretionary power of the virtue of sympathy on the one hand and of caution on the other.

23. The adoption of the gold standard will render unnecessary the purchase of silver for at least some time to come. If and when the need rises, the purchase of silver should be by open tender and not by private arrangement through any broker.

APPENDIX 34.

Statement of evidence* submitted by Mr. B. Venkatapatiraju, C.I.E., M.L.A., of Vizagapatam.

1. The terms of reference of the Commission to examine and report on the Indian Exchange and Currency system and practice, to consider whether any modifications are *desirable in the interests of India* and to make recommendations are unexceptionable.

2. My resolution *re* : Inquiry into the question of Currency and Exchange which was adopted by the Legislative Assembly on the 27th January, 1925, though worded differently has the same object in view but prominence was given for the predominance of the Indian view point, runs as follows : "This Assembly recommends to the Governor-General in Council that a Committee with a majority of Indian non-officials on it and with the Indian Chairman be immediately appointed to examine the whole question of exchange and currency in the light of the experience gained since the date of the publication of the Babington-Smith Report, and to make recommendations as to the best policy to be pursued to secure a system of currency and exchange best suited to the interests of India."

3. As the Committee is charged to make suitable recommendations in the interests of India, I take it that no other consideration will weigh with them except what is good in the best interests of India. Of course views might differ on the modifications that have been made in the currency system and practice for the good of India but *interests of India* would have to be interpreted as one which brings about highest good to the largest number of people in India.

4. I am constrained to make special note of this aspect as I will show later on that Indian interests are sacrificed on many an occasion and hence no apology is needed to emphasise the point.

5. Money serves the double purpose of being standard of value as well as medium of exchange and standard coin is regarded as one whose value in exchange depends solely upon the value of the material contained in it while token coins are those which exchange in a certain fixed ratio for standard coins.

6. In India at the present moment we have *quasi*-standard coins,—silver rupees whose value does not depend on the value of the metallic contents thereof while they possess unlimited tender quality unlike token coins. The Government fixed the statutory ratio at 2*s*. per rupee, i.e., Rs. 10 per sovereign without any obligation attached to the Government to give a sovereign when Rs. 10 are offered while prepared to accept sovereign for 10 rupees as the market value of sovereign on account of its metallic value is necessarily higher. The Government have no misgivings that the statutory ratio would ever be reached unless they are prepared to screw up the artificial value of rupee by manipulating exchange to such an extent as to create uproar both in the traders and the people. The Government have manipulated so far as to raise the exchange value of a rupee to 1*s*. 6⅛*d*. and Sir Basil Blackett has been kind enough to state that the Government did not wish to see exchange above 1*s*. 6$\frac{3}{32}$*d*. as the actual level of exchange solely depends on the willingness of the Government to continue purchasing sterling at a given rate.

7. The question arises whether the Government should retain the power of manipulating the values of so-called standard coins or leave it to economic causes to fluctuate the values according to the metallic contents thereof and also whether standard coins should be in silver or gold or whether the statutory ratio should be altered and if so at what ratio to be fixed and whether further attempts should be made in stabilization at any imaginary figure or whether gold standard and gold currency should be adopted while treating existing rupees as token coins fixing the ratio at a certain figure for convertibility of the existing coin and rupee obligations.

8. To unravel this tangled web and to understand the history of Indian currency blundering, let me state briefly the past history and present complications and conflicting interests and future policy what I presume to be fair policy to be pursued so far as India is concerned.

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* Mr. Venkatapatiraju subsequently submitted a supplementary note (not printed herewith), which was however received too late to be considered before his oral examination.

9. The Arthasastra of Chanakya mentions Royal mints and officers whose duty it was to regulate currency as a medium and exchange and as legal tender. We read of Indian gold coins of Vedic period. India had extensive commerce when half of Europe including even Britain was in uncivilised state. India had been exporting manufactured goods, pearls and spices and importing gold so as to cause consternation in the Roman Senate in the time of Cæsar that India had constantly been exploiting Italy and depriving her of her gold.

10. In the middle of the 18th century even Delhi gold mohur and silver rupee was in currency at the stated ratio of 1 to $15\frac{1}{2}$. In Southern India gold coin was Pagoda with widest circulation with subsidiary silver coins till the very last date. Even now on advocates' briefs, Mohurs in Bengal and Pagodas in Madras or their equivalent value are marked as day fee by the solicitors. Some commodities are still valued in Pagodas even to-day. Hence, India knows no gold coin is an assertion far from truth. Shaking the Pagoda tree was the common expression for exploiting India.

11. The East India Company to avoid multiplicity of variety of coins in several parts of India, coined distinctive rupees for a silver currency but stated they did not wish it to the exclusion of gold. In 1835 silver rupee of 180 grains $\frac{11}{12}$ths fine was made standard coin and gold was demonetised but Government officers authorised to receive mohurs at fixed rates with a ratio of 15 to 1 between silver and gold.

12. When gold became cheap in 1853 gold coin was refused to be received into Government treasuries in exchange for rupees. Both Indian and European merchants memorialised the Government of India for a gold currency and Government agreed to make sovereigns legal tender at Rs. 10. Successive Finance Members of the Government of India strenuously advocated for a gold currency.

13. In 1866 the Mansfield Commission recommended to make gold coins legal tender money but the Home authorities did not approve of the proposal but authorised receipt of gold coins in public treasuries at fixed rates as used to be done before 1853.

14. Bimetallic system: Uniform practice in all countries both Eastern and Western had been for Government to mint and issue gold and silver coins and then to fix their relative values or leave them to be determined by economic forces. But in the 19th century some countries followed the lead of England to adopt the gold standard when silver value had gone down. Silver value per ounce (480 grains) in 1872 was in English exchange $60\frac{5}{16}d.$ and $53\frac{1}{8}d.$ in 1876 and $50\frac{1}{6}d.$ in 1883 and $42\frac{7}{8}d.$ in 1888 and $35\frac{1}{6}d.$ in 1893.

15. I may mention that the Coinage Acts 17 of 1835, 21 of 1838, 13 of 1862 and 23 of 1870 made silver rupees legal tender and coinage of bullion was made obligatory that the mint master shall receive all gold and silver and charge duty 1 per cent. in case of gold and 2 per cent. in case of silver and supply gold mohurs of 15 rupee piece and double gold mohur and $\frac{1}{3}$ gold mohur and $\frac{2}{3}$ gold mohur valued 30 and 5 and 10 rupees respectively and thus supply gold coins provided under Act 17 of 1835, as well as silver coins also current in British India though under Act of 1870 no gold coin shall be a legal tender in payment or on account. But it is clear that the Government are bound to supply rupees current in India for silver bullion supplied weight for weight on payment of coinage charges. The Executive have no power to manipulate the value of the rupee except the value possessed in the metallic contents thereof.

16. As the countries of Latin Union, France, Italy, Belgium and Switzerland abandoned the bimetallic system and gave up free coinage of silver and as the gold value of silver has gone down and on account of Home charges remittances as well as Importing English merchants' troubles and English servants' difficulties to remit to England gold after converting cheap silver rupees, the Government of India felt it necessary to seek the help of Home authorities to stabilise the exchange value, by bringing about Internationl agreement at the Monetary Conferences in 1878-1881-1892 which were proved abortive as England sternly refused to tamper with the gold standard by any Bimetallic system. Indian Government pressed for gold currency, but Home authorities wanted Indian currency to be rested on a silver basis.

17. From 1873 to 1878 the Government of India discussed plans about the suspension of rupee coinage. From 1878 to 1892 they wanted to secure International Bimetallic agreement at the meeting of Brussels Conference. But the Secretary of State for India in 1879 and in 1886 opposed tampering with the

currency and making it artificial. He pointed out very correctly that whatever relief the Government would secure, would be at the expense of Indian taxpayer. Even the exporting English merchants like tea-planters and jute exporters opposed the change, while Importing merchants of foreign goods supported it. Indian public opinion condemned the policy of artificial interference with the country's currency as being unnecessary and harmful, advocating the straight course for the Government to meet the exchange difficulty by retrenchment and economy in expenditure and systematic curtailment of India's gold obligations.

18. The Government were averse to follow that straight course for if they could not curtail the expenditure they had to increase the burden of taxation over the already heavily-burdened tax-payer in India which would be unpopular. Hence with the sanction of Secretary of State the first downward course of questionable currency policy was begun in 1892 by closing the Indian mints for free coinage of silver while accepting Indian currency on silver basis. In January 1893, the Government of India pressed to make English gold coin legal tender and Lord Inchcape as Mr. J. Mackay then pressed for currency Reform.

19. Lord Herschell's Committee was appointed which recommended coining rupees in exchange for gold at the rate of 16*d*. to the rupee and gold to be received at the same rate in public Treasuries. Act VIII of 1893 was passed prohibiting free coinage of both gold and silver but notifications were issued to receive gold at 16*d*. per rupee.

20. In 1897 when India was invited to join France and the United States to follow a common policy of free coinage of silver or gold at the ratio of 15½ to 1, Government refused.

21. In 1898 the Fowler Committee was appointed for making effective the policy adopted in 1893. The India Government proposed to create gold reserve out of profits of silver coinage to raise the value of rupee to 16*d*. The reasons urged for and against the adoption of gold standard were,

For

(1) need of stability of exchange as a condition of smooth and prosperous trade,

(2) necessity of preventing losses which a falling exchange entailed on Government,

(3) necessity of establishing same standard as prevailed in England and other countries with which India had trade relations.

Against

(1) Silver monometallism was the best policy of India as it had worked satisfactorily on the whole and prices had remained steady under it,

(2) gold exchange difficulty could be met by retrenchment and economies and systematic curtailment of India's gold obligations and Home charges,

(3) falling exchange had stimulated trade and promoted prosperity,

(4) artificial currency system was undesirable especially because it meant the transference of the loss of the State indirectly to the shoulders of the people.

22. The Fowler Committee declared itself in favour of the effective establishment of a gold standard to be accompanied by a gold currency and sovereign to be a legal tender for Rs. 15. Rupee would be token coin but unlimited legal tender though token coins are usually subsidiary coins. Profits of coinage should be in a reserve Fund. Indian authorities accepted the recommendations in full. Mr. Lindsay suggested gold exchange standard with gold reserve in England and silver in India out of which drafts to be sold either way by Government to be met. Gold to be used not for internal currency but for settling India's balance of foreign indebtedness. He did not approve of gold currency. Mr. Lesley Probyn suggested gold note issue Rs. 10,000 denomination and keep the gold reserve in India. But Fowler Committee rejected both these suggestions holding that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, namely, a gold currency. In 1899 the Government embarked upon a policy of gold standard to be ultimately accompanied by a gold currency. Sovereigns were made legal tender and active steps taken to open a mint for gold coinage though the scheme was dropped in 1902 to be renewed only ten years later owing to the objection of Home authorities.

23. The Government policy began to drift from the ideal recommended by the Fowler Committee which was ignored and India came to have a hybrid system of " limping standard " instead of genuine gold standard, named gold exchange standard.

24. The Chamberlain Commission of 1913-1914 pointed out how the Government departed in several important particulars from the policy recommended by the Fowler Committee and approved by the Government, namely :—

(*a*) Investment of gold standard reserve in securities in London.

(*b*) Dropping of the scheme of gold mint.

(*c*) Practice of selling Council drafts at something below gold point against the currency reserve.

(*d*) Establishment of silver Branch of gold standard.

(*e*) Diversion from the Reserve for Capital Expenditure in 1907.

(*f*) In 1908 for meeting drafts sold by Government in India on London to private traders.

25. This gold exchange standard is anomalous as gold is the nominal standard of value. Principal currency is a token silver rupee which is unlimited legal tender without any obligation on the State to redeem in the standard metal gold. Gold is not to be in circulation in India but to be used for the foreign Exchange; rather the sterling drafts is the standard value for the time being.

26. While wrongly stating that India neither demands nor requires gold, the Chamberlain Commission admitted the essential feature being absolute security for convertibility into sterling; and of so much of the internal currency to meet India's External obligations. Sir James Begbie dissented from the majority and advocated true gold standard accompanied by gold coins in circulation.

27. Every country demands that its currency must be legally convertible into the standard metal. As Financiers in other countries are alarmed at the large absorption of gold in India and wanted it to be blocked this ingenious system of Gold Exchange standard was adopted, which India does not want at all but enforced on her by political authority.

28. The Government of India really wanted to start a gold mint in India and Sir Chriton Daubins, Finance Member of the Government of India announced in the old Imperial Council that everything was ready for it in 1900 but the mint authorities in London raised all sorts of spurious objections and British Treasury opposed the project which was necessarily stopped.

29. One is tempted to ask whether out of love towards India, Home authorities prevented opening gold mint in India and prevented import of gold into India, when gold was cheap and even at the present moment preventing import of gold from Australia and Egypt by purchasing it themselves, if need be, than allow it to go to India. On the 31st March, 1925, a shipment from America of 16 lakhs of gold dollars by Parcel Post to India was frustrated owing to the refusal of the British line of steamers to transmit gold from Marseilles and gold was necessarily returned to New York. The other day Sir Purshotamdas pointed out in the Assembly that gold bars of more value than Rs. 300 will not be received for internal transit in India even by the Post Office. Gold is a luxury and unfitted for poverty-stricken India in view of the Government The far-famed riches of India beyond the dreams of avarice have disappeared gradually.

30. To speak of past events, in 1912 when Sir Vithaldas Thakersay urged in the Imperial Council the necessity of maintaining gold coins in India and even when the Government of India urged the same view strongly and when the Secretary of State suggested minting gold coins of Rs. 10 denomination, British Treasury opposed it.

31. The Chamberlain Commission (1913-14) recommended minting sovereigns only but stated that the gold reserve should be kept in England alone ignoring the advantage of having it in India for the benefit of commerce and industry.

During the period of War when gold coins were necessary to be minted in India for War purposes a Branch of Royal mint was opened in Bombay in 1918, gold mohurs of sovereign weight and fineness were issued.

32. During the War period and thereafter there was complete breakdown of gold Exchange standard system. This system gave 1/15 value of a sovereign to a rupee which means value of 7·5 grains of gold out of 113 grains of pure gold in a sovereign.

In 1918 severe silver crisis arose on account of the huge demand for rupees and the United States agreed to sell to India 200 million ounces of silver to conserve the gold supply of the United States and to permit the settlement in silver, of trade balances adverse to the United States. But the stability of Exchange has broken down and the exchange soared to giddy heights.

33. The Babington-Smith Committee was appointed in 1919 as the chaotic condition of the system of Currency and Exchange called for an enquiry and suitable remedy. Sir Sankarnair complained that subordination of India to English commercial interests has been the general policy of the Government. Even Babington-Smith Committee condemned the policy by stating " The commercial community are prepared to deal with fluctuations in exchange as well as with fluctuations in the other elements entering into a transaction and to provide against any risks that may arise," but they feel that if official action intervenes to interrupt the play of natural forces and to give effect to them, an element of uncertainty is introduced which is beyond their reckoning. But the Committee by the terms of reference were bound to suggest means for ensuring a stable *gold exchange standard* but not *gold standard*. The question of monetary standard was not kept open as the exchange standard was to be assumed and the discussion of a true gold standard was not to be revised, and what was desired then was the stabilising of the exchange—value of the rupee of a suitable rate. Sir Basil Blackett might say to the unwary that there is no practical difference between the two. The Committee suggested raising the Exchange value of the rupee on the following grounds, namely :—

(*a*) Cost of imported machinery will be decreased encouraging the establishment of new industries.

(*b*) European cost of production has increased greatly since the period of War.

(*c*) High rate of Exchange lower prices in India while benefiting the consumers it will also reduce the cost of raw materials to manufacturers in India.

The Committee suggested fixing the rate of exchange at 2*s*. per rupee, i.e., when rupee silver was worth 9 annas or thereabouts the coined rupee should be valued at 16 annas. The burden would be increased by 78 per cent. by the change of policy since 1892. If the ryot were to pay Rs. 1,000 in silver in 1892 he had to pay Rs. 1,350 weight of silver or equivalent value of goods till 1921 and thereafter Rs. 1,550 weight of silver and by this proposal 1,780 rupees weight of silver in payment of Rs. 1,000. In other words the public revenue (Imperial Provincial and Local) of 300 crores of the present day is 300 per cent. higher than before the artificial exchange and 200 per cent. higher than before the War, the people were actually made to pay 450 crores of silver tolas or equivalent value of goods or services to meet 300 crores of artificial rupees.

34. The Babington-Smith Committee recommended that both the rupee and the sovereign are to remain legal tenders and current coins and so their interrelation should be fixed and further recommended free import of gold and silver and a gold mint with free coinage of gold subject to a coinage charge but they admitted the system suggested by them is no proof against a great rise or fall in the value of silver. They emphasised the reopening of the Bombay gold mint to make the gold currency available not only for the Government but also for the receipt of gold bullion from the public for coinage.

35. There are in India about 400 crores of silver rupees though 247 crores of rupees might have been converted out of 647 crores of rupees coined by the Government. The plea of the Government to meet the requirements of the trade is much exaggerated but the real reason being to retain the power of diverting payments of India's foreign balances from gold to silver. The rate of exchange fixed at 2*s*., or anything higher than the true value of silver is to disturb all relations of debtors and creditors and to increase the burden of taxpayer and to harm the industries in India as well as exports of the country with the danger ahead of turning the trade balance against India.

The indebtedness of agriculturists now would be about 900 crores and by artificially raising the value of the rupee the Government without intending it are

helping the creditors at the expense of the debtors. All this artificial rise just to meet Home charges not exceeding 50 crores which at natural and economic rate will not exceed the cost of 20 crores whereas the country is being mulcted to the tune of 100 crores annually by this artificial rise.

36. If to meet the additional loss of 20 crores no retrenchment can be effected and raising taxation was the only course open to the Government, even then the agriculturits would be benefited to the extent of 80 crores all round after meeting additional reserve wanted. It is true that the consumers have to pay more rupees for imported article but the balance of trade being naturally in favour of India and most of the imported articles are used by the comparatively richer section, poor would not be at a disadvantage if taxation and fiscal system is properly and equitably adjusted.

37. Sale of Reverse Councils in 1921 is gigantic blunder causing loss to the tune of 35 crores by selling 55 million sterling assets to help persons to send their savings to England by giving unduly cheap pounds and partly to help the speculators to make a profit of *5d.* per rupee and sometimes even more. No one can support the wisdom of these sales carried on in spite of strong opposition all round. Sir Malcolm Hailey had to admit that the blunder was committed. He stated that if other methods of selling reverse councils had been adopted depletion of sterling resources would have been less marked. The Babington-Smith's Committee attached great importance as per terms of their reference to the stability of the value of the rupee and fixed it at *24d.* per rupee as suitable rate of Exchange though Mr. Dalal exposed the fallacy in the argument of the majority and I may state without fear of contradiction that alteration of India's monetary standard by the Executive action of Government and general working of gold exchange standard during and after War to suit the administrative convenience and to safeguard the interest of Britain and the British merchants have caused deep dissatisfaction in India.

40. If David Ricardo's system is to be adopted in India, gold reserve should be in India for the backing of representative money. If there be gold currency in India the Exchange fluctuates only to the specie points unless there be inflated paper currency and cost of maintenance of exchange falls on the taxpayer. From March 1914 to March 1919 trade balance in favour of India was 254 million sterling. If India is allowed to import gold, we would have lent to England, if necessary, or meet all external obligations whenever needed. On account of depreciated rupee there was great absorption of gold. We are clamouring for a gold currency since 1835. At present paper currency is expressed in rupees. I do not see why it should not be expressed in gold hereafter after settling the rupee exchange value for the existing obligations. One is tempted to ask whether the Government have any settled policy at all. I am afraid they have no policy except adopting principle of expediency irrespective of its morality or otherwise. Perhaps they have chosen drift policy on account of persistent interference of Home authorities. Till 1893 the Government had maintained correct attitude. The currency of India was on the basis of silver freely minted the gold value of the rupee fluctuating with the gold value of silver bullion.

41. I do not think the present currency policy was adopted deliberately. I am at a loss to know what was the goal to which we are drifting. If gold currency was their goal as recommended by several Committees and advocated by the Indian Government, Home authorities never allowed it to India. If a rupee is a token coin which is virtually a note printed in silver as contended by Sir Basil Blackett, it is really extravagant as stated by Professor Keynes whose authority Sir Basil Blackett respects.

42. Rupee contents 3/8 oz. of silver of 11/12 fineness. When standard silver is *24d.* per oz. the cost of rupee to Government is *9·181d.* and if it be *32d.* per oz. *12·241d.* is the cost of rupee. The Government made large profit by the coinage, for instance, from 1910 to 1912 the average profit was about 42 per cent. of the nominal value.

Lord Meston stated in the Imperial Council in 1910 that we have linked India with the gold using countries of the world. We have reached a gold exchange standard. The next final step is a true gold currency. He added " I trust that it will not be long delayed for when it comes it will obliterate all the mistakes, all the inconveniences, all the artificialities of our present system ". Of course Sir Basil Blackett demurred from that view as he seems to be anxious to maintain at all hazards Gold Exchange standard.

43. I do not think any useful purpose will be served in referring to similar or analogous system imposed by political authorities over the subordinate dependencies, for instance, the United States introducing some such system in 1903 into the Philippine Islands and in Mexico and Panama under United States influence Government of Siam, adopting it. The French introducing it in Indo-China, British Colonial Office introducing it in the Straits Settlement and also into the West African Colonies and in Java under Dutch influence. Whether the system is similar in all particulars and how the subject races are faring is of no consequence when this Committee is asked to recommend what is good for India.

44. If rupee is a note printed on silver irrespective of the value of the metallic contents thereof large economies may be effected by the use of some cheaper substitute than silver. Professor Keynes thinks gold currency is wasteful and extravagant and it would diminish and not increase the stability of the currency system as a whole. His view is not accepted by Britain when it recently introduced gold standard in fact as well as in name by removing all distinctions of sterling and bullion. British Self-Governing Colonies established gold standard. After all, during the last 60 years, India absorbed about 300 million of gold. Other countries have comparatively absorbed much more. If we have to take balance of trade into consideration we notice pre-war period annually 78·27 crores of rupees.

	Crores. Rs.
War period annually	76·34
1919-20	+125·99
1920-21	—77·55
1921-22	—20·20
1922-23	+90·01
1923-24	+144·62

Practically in all the years, we have favourable balance of trade in India except in the years 1920-21 and 1921-22 to the extent of 97·75 crores. Therefore, we may conclude generally that we shall have favourable balance of trade. We may notice that currency notes with rupee obligations are in circulation of 185 crores of which 160 crores of notes only are under active circulation.

45. We would naturally expect the State to provide means when there is demand for currency that demand will have to be supplied automatically and not at the discretion of the Executive authority. The Government should take the final step of announcing gold as the standard coupled with the correlative obligation to give gold for silver coins at the rate fixed by them. When coin is a circulating media certified by authority, any arbitrary ratio fixed which is divergent from the market ratio of the day will never have stability, unless the Executive keeps the power in their hands to manipulate the exchange value by artificial rise of the value of the coin by creating scarcity. No self-governing people would tolerate such interference by the Executive except on occasions of emergency such as war. Since 1893 exchange value of the rupee has been at the mercy of the Executive in India. So long as the country is ruled by alien authority it adds to the burdens of the people.

46. Why should anybody suppose that what is good to every other country is bad to India alone? Has any country attempted to stabilise the prices of commodities by manipulating the exchange price of standard coin? Why should our Government alone be so solicitous as to prevent the rise and fall of the prices of commodities? Prices are simply the numerical expression of the ratios of exchange between every other commodity and the standard commodity. Whenever the worth of either commodity changes, ratios will change, i.e., prices fluctuate If an element of uncertainty in value is introduced into the standard commodity not on account of economic causes but at the sweet will and pleasure of the Executive, greater uncertainty would be the result. It is true, stable standard is very difficult of attainment. When we adopt the same standard which is adopted in other commercial countries, uncertainty is minimised to a greater extent. Of course, market price of any commodity depends not only on the demand and supply of that commodity as well as the demand and supply of the standard commodity say of gold which is utilised for the purposes of art and currency. If we add to this uncertainty another commodity as secondary standard such as credit instruments or sterling drafts or token coins of unlimited legal tender, its depreciation adds to the price. Statistics of average prices indicates changes in the purchasing power of the unit of value brought about by various causes as well as demand and supply of commodities whose prices are enumerated.

47. It is true Professor Keynes is fond of "managed currency" of which gold exchange standard is an example. The Currency Committee appointed in

England unhesitatingly declared against it. The alternative for the gold standard of substituting price level of commodities in general for gold as the regulating principle of the currency is condemned as being impracticable. As Mr. McKenna has pointed out that the gold standard was itself the best regulator of prices that it was an international measure of value common to all and mutually and universally accepted that it was automatic in operation and that it relieved the central currency authority of responsibility which might not always be discharged with the knowledge and judgment indispensible for the prosperity of the national trade and Mr. Goodenough of Barclay's Bank also stated that a free gold market for London was the surest guarantee for stability in world prices and for confidence both of which were essential to good trade. Let us not play the part of King Canute to stem the tide of ocean waves as to stabilise the prices of commodities by financing expert's magic wand. Let us follow the example of others of adopting genuine gold standard instead of adopting any spurious imitations thereof.

48. Mr. Arthur Kitson, in the September number of the 19th Century under the heading of the gold standard experiment, condemned in scathing terms though not convincingly, of the introduction of the gold standard. As pointed out by Mr. Frank Morris in October Number of the same journal, the Government of Britain did not solely depend on the recommendations of the Cunliffe Commission but their views were reinforced by the unanimous reports of the Brussels conference and the International economic conference at Geneva together with the support of leading European economists such as Professor Charles Gide, Gustav Cassel and A. C. Pegore. Mr. Kitson seems to be in the wrong in asserting that those who advocate gold standard try to stabilise absolutely monetary system by tying money to gold. As I have stated above absolute stability is impossible but uncertainty is minimised as all commercial countries are adopting gold standard and hence there would be minimum of exchange difficulty so long as honesty and accuracy is guaranteed in minting the standard coin. I fail to understand the scientific currency spoken of by Mr. Kitson. He wants that money may be regarded as a scale on which the values of all commodities are indicated and compared. As Mr. Morris puts it that it is a scheme for relating the "paper" pound to some index-number representing the average value and price of certain essential commodities such as wheat, clothing house-rent instead of gold. For a layman like myself it is difficult to understand how foreign exchange troubles would be avoided by use of paper money regulated by index numbers for securing stability of internal prices. Whether prices of commodities can be stabilised at all, is a moot question, when prices depend generally on effective demand and copious supply. I regard this scientific currency as scientific frontier advocated by military experts which is utopian in the extreme. As Mr. Morris puts it, it is unstable in itself and non-international in practice, if paper money is to be regulated by index number of prices which we are told "are never accurate in their decimals and rarely in their units".

We need not worry ourselves with this academic discussion when Britain refused to follow the guidance of these Financial experts. Gold is a precious metal universally acknowledged and adopted for exchange purposes, in all civilised countries at the present moment. I have great doubts about the utility of managed currencies but am quite sure of its dangers when the Government which manipulates the currencies is not responsible to the people who will be affected thereby. It is too late in the day to place Indian currency on silver basis when India has export and import trade to the extent of 700 crores annually besides large large amount of several hundred crores of rupee obligations and coins whose value, if fixed on the market price of silver bullion, would cause consternation and if fixed at the artificial manipulated value it would be ruinous to several parties concerned. Hence, I have no hesitation to recommend genuine gold standard accompanied by gold currency with subsidiary silver token coins at the fixed ratio, which should never have unlimited legal tender.

49. Our troubles will not end by the adoption of gold standard merely. Even if we adopt sovereign or mohur of equal weight and fineness as our standard unit and receive gold bullion into the mints in India for free coinage, after taking say 1 per cent. of seigniorage charges, of standard coins, as the existing currency is practically based on silver we have to provide for the convertibility of existing silver obligations. There will be no difficulty of sterling debts as sterling and Bullion is at par now we have to pay both the principal and interest in gold. What should be the ratio to be adopted for converting rupee obligations such as Government rupee bonds as well as currency notes and rupees and half-rupees in

circulation. If we have to adopt the standard prevalent prior to 1893 of giving market value of silver of equal weight per every rupee obligation or coin, there would be uproar throughout India as contractual obligations entered into within the last thirty years will have to be radically changed to the detriment of creditors. If on the other hand we have to adopt for convertibility the present artificial value of the rupee we are unnecessarily adding to the burden of tax-payers and debtors without any sound reason whatsoever. The only feasible course seems to be of issuing currency notes of a £ and 2½ and 5 and 10 and £100 and £1,000 by converting rupee notes at Rs. 15 per pound. In case the Home authorities object for any reason whatsoever of minting sovereigns of the same weight and fineness in India, I would suggest minting gold mohurs of the weight of sovereigns with the same fineness of gold and then currency notes have to be issued instead of in Pounds but in Mohurs of the same value at Rs. 15 per mohur of weight and fineness of a sovereign.

50. Similarly Government Bonds in rupees should be converted into Government Bonds in Mohurs or sovereigns as the case may be at Rs. 15 per mohur or sovereign bearing the same rate of interest. About 400 crores of rupees seems to be in circulation. About 300 crores of rupees should be gradually converted into 20 crores of gold coins Mohurs or sovereigns and the remaining 100 crores of rupees should be left as token coins bereft of unlimited legal tender but limited to the extent of Rs. 100 only by appropriate legislation. It is true by demonetising silver in India, silver price would go down to some extent. It could not be helped. Services should be paid in currency notes of gold value. There should be universal convertibility in India of Gold Standard coins and silver token rupees and half-rupees as well as exchangeability everywhere currency notes of gold value throughout India, while Government undertaking to supply gold or currency notes of gold value interchangeably. The mints should be opened in India to receive gold bullion and supply gold mohurs or sovereigns after realising seigniorage charges freely. All direct and indirect attempts of preventing import of gold into India should be stopped and duty of 15 per cent. should be imposed on on all silver Bullion imported into India for a period of ten years till the new monetary system established itself firmly by preventing the flooding of India with cheap silver, while allowing the import of gold free. Silver in India for internal use would be appreciated by 15 per cent. for a period of ten years and large quantity would be converted into gold. All Government dues should be made payable in gold coins and currency notes of gold value at Rs. 15 per standard gold coin, sovereign or mohur. These alone should have universal legal tender. All contractual obligations entered into by all parties, public or private have to be discharged in Gold Standard coin or notes of gold value at Rs. 15 per sovereign or Mohur. Currency reserve both of paper and gold should be kept in India alone and silver coin and Bullion should be replaced by gold as quickly as possible as gold is available. Home charges should be met from time to time by the Secretary of State issuing gold drafts on India payable by the Government in gold currency or currency notes of gold value when gold is deposited into the Bank of England for the credit of the Secretary of State by the merchants in England at par value *plus* transmission charges. Similarly the merchants in India might be similarly afforded trade facilities when gold is deposited in the Public treasuries in India at par value *plus* transmission charges when Banks of Exchange and the Imperial Bank cannot cope with it. I am sure within ten years all exchange difficulties would cease, embargo on import of silver may be removed, if it is not necessary for revenue purposes. Any deficiency of Government Revenue has to be met with by economy in expenditure and equitable adjustment of taxation in the best manner possible. I agree with Mr. Kitson in two of his statements that we should not have any fraudulent standard either for internal or external purposes and the interests of any special class should not be given prominence or predominance in determining the Government policy either in adjustment of taxation or fixation of currency standard. But I oppose all managed currencies on the pretext of stability of prices as I am sure Gold Standard maintains automatically the equality of international price levels. As we have generally foreign trade balances in our favour there will be no difficulty in importing gold to the extent desired. I shall be happy to supplement my observations by oral evidence whenever desired.

APPENDIX 35.

Statement of evidence submitted by Mr. B. Ramachandra Rau, of Calcutta.

I.—INTRODUCTORY.

The main reason why the Indian Currency System has failed to give entire satisfaction to the producers, consumers and the Government is that the expansion of currency, credit and capital, which are primarily the result of an organised capital market, does not meet the demands made by the different producers. While an industrial revolution is being slowly worked out and large-scales production under a capitalistic régime is coming gradually into existence the needed currency credit and capital expansion is not at a rate satisfactory or conducive to the interests of the producers. What is needed is a commercial revolution to synchronise with the industrial expansion going on in the country. In the western countries the commercial revolution, consisting of the improvements in communication and credit machinery, came at about the time when industrial organisation, based on a capitalistic régime, was establshed as the main feature of social economy. Between 1840 and 1880 a great commercial revolution, annihilating distance and expanding credit machinery to suit the growing needs of the expanding industries, took place. It is the lack of such an expansion in this country that is sometimes felt as a handicap by the producers. The cotton mill-owners do not complain of the excise duty alone, but many others, one of which is the lack of cheap credit. The expansion of capital, credit and currency to meet the effective demand for them is one of the chief features of a good currency system, and this feature is entirely lacking in our system.

The currency problem of any country is essentially an international problem. An effective solution can be reached only out of international co-operation. The prices ruling in one trading country cannot but be influenced by the prices prevailing in the other trading countries. In India the price of steel is subject to the competitive influence of steel produced in Belgium, England or the United States of America (custom house barriers and transport costs being taken into account). Of late there has been a strong tendency towards a common level of prices in all the trading countries, due allowance being made for differences in tariff and cost of transport. Even in the case of those countries which have not the same standard the link tends to be established, though perhaps it may be less direct. Bearing this in mind our currency policy should be so framed as to allow the free play of these world influences in the sphere of currency.

II.—THE PRESENT CURRENCY SITUATION.

A. The silver rupee continues to be a note printed on silver. As regards its convertibility into gold for internal purposes there is no law assuring the people that it would be converted into gold at any fixed ratio. Owing to the fall in the price of silver the silver rupee has once again become a token coin. It is unlimited legal tender. It is still the preponderating medium of exchange.

B. The English sovereign is unlimited legal tender at the rate of 2*s*. gold to the rupee. This fictitious ratio is not, however, effective, i.e., no one would take sovereigns to the Government and take 10 rupees in return for the same. In the market roughly rupees 13 odd would be obtained for it.

C. The paper currency convertible into the silver rupee is strictly regulated and issued by the Government according to the terms of the 1861 P.C. Act and the various amendments passed since this period. Some amount of elasticity has, however, resulted by the recent amendments of 1923 and 1925.

D. Bankers' cheques, drafts and bills of exchange, national and international credits and other negotiable instruments that might be created are not circulating outside the Presidency towns and the port cities. The banks are not endowed with the privilege of issuing notes.

E. The expansion and contraction of currency can be brought about by the discretion of the Government alone; the banks' power in this matter is very limited. The only amount of elasticity which the banking system under the guidance of the Imperial Bank can bring about is limited according to the provisions of the P.C. Amendment Act. As the fiduciary basis of the P.C. can be expanded from the 85 crore (Rs.) limit to 100 cs. by the Government, this lies

purely in the hands of the Government. More rupees can be released in India from the P.C. Office against the British securities placed in the P.C. reserve. Thus the Government is at present managing the system according to their ideals.

F. It lacks, however, stability of purchasing power, though, of course, our price oscillations are not so varied in nature as in the case of the western countries that have not returned to the gold standard.

G. A word is needed as regards the position of gold in our currency system. Gold is used for hoarding purposes. The use of the token rupee with its low intrinsic value, combined with other causes, has led to the hoarding of wealth which ought to have been released as industrial capital. Any currency system that is to be devised in the near future should facilitate this purpose of converting the savings into industrial capital.

III.—The Intermingling of Exchange Problems with Currency.

Economically speaking, the stability of exchange is not of such far-reaching importance as the stability of prices. There are several advantages resulting out of stability of prices. The stabilisation of the labour market, the maintenance of a steady output of industry, and the encouragement to the investors are some of the prominent advantages resulting out of comparative stability of prices. Without this stability in the price level of the country it is difficult to attain a stable level of exchanges, for, as Professor Cassel has pointed out, the level of exchanges corresponds to the purchasing power par. Frequent changes in the price level of the country cannot but influence the level of the exchanges and make it impossible to make any accurate forecast of economic and business conditions. But in the case of India the Government has undertaken the management of the exchange value of the currency, considering it to be more important than the stability of the commodity value of the rupee for internal purposes. Since the fateful years 1872-1892, during which period the Government suffered so much on account of the vagaries of the falling exchange, the exchange value of the rupee is declared to be of tremendous importance to the country. The Chamberlain Commission has been voicing a similar opinion. It was only the recent Babington-Smith Committee that reversed this opinion, and declared that exchange stability is only an important facility and not an absolute essential. Exchange stability can be secured as a bye-product if we secure price stability in the first instance, exchange being the result of the relative price level of the different trading countries. State control of exchange without controlling the price level would lead to several defects, as has been noticed in the case of India. From 1900-1913 India enjoyed stability of exchange (barring 1907-08), but this has been accomplished by placing more rupees and inflating the Indian price level at the ports to the level prevalent in England. Thus has the rise in the exchange level has been checked by creating more rupees or currency. The ~~Government only~~ failed in this task during 1917-20, as the rise in the price of silver was quite unprecedented in the annals of the history of silver. Even if the Government succeeded in placing rupees at the old rate they would have disappeared, and the ultimate raising of the value of the rupee was inevitable. Stability of exchange means also that the Government should be in a position to prevent the exchange value of the rupee from falling below the accepted rate. This they failed to do during the days of 1920-21. Thus a rise or a fall in the exchange value of the rupee is possible under certain circumstances, and this has to be reckoned, as India would not always be in a position to enjoy a favourable trade position. In spite of the massed reserves behind them the Government might find it an impossible task. What is required is a sacrifice of this ideal, i.e., that exchange stability is more important than the stability of the price level. With the following ordinary checks tolerable stability of exchange can be obtained. (1) Arbitrage carried on by international bankers and financiers. (2) Straddling, i.e., taking advantage of differences in the real value of long-bill and short-bill quotations. (3) Forward exchanges spreading the demand for funds over a longer and therefore stabler period. (4) Finance bills. (5) Prudent manipulation of the Bank Rate. Thus exchange can be safely allowed to rest in the hands of the exchange bankers, whose main duty would be to impart a tolerable amount of certainty to the exchange value of the currency unit. From the standpoint of obtaining capital also the stability of exchange is not so important at present, as the foreign capitalists would be too busy with plans of economic reconstruction of their own country, and would have little to spare. Stability of exchange is important only from the standpoint of the Government, as it is saddled with the task of meeting

the home charges, and a fluctuating rate of exchange would introduce uncertainty in the matter of framing the Budget. An uncertain exchange situation would make the Budget a gamble in exchange. But it is not an impossible task for the Imperial Bank to lay down the requirements of the situation in England when it is allowed to handle general foreign exchange as a part of its routine business.

IV.—Other Defects of the Gold Exchange Standard.

(1) It has been already pointed out that there is less stable purchasing power attached to the rupee. The rise in prices is inevitable if a rise in the exchange value of the rupee is to be prevented. The Gold Exchange Standard has thus an inherent tendency to inflate the price level. This creates specific depreciation of the rupee in terms of gold and tends to affect the level of the exchange value itself. It is one of the axioms in the economic field that the standard coin should have stable purchasing power over commodities. This the rupee fails to possess.

(2) It leads to an accumulation of the reserves in a foreign centre for the purpose of its being used once in a decade when the unfavourable balance of accounts has to be liquidated. As there are other means to do the same thing it is uneconomical to hoard so much of the different reserves in a foreign country.

(3) It encourages hoarding on the part of the people, as the standard coin is a token one, possessing very little intrinsic value, and is itself not convertible into gold. It has tended to keep gold out of employment.

(4) The sale of Council Bills releases rupees in India, and this expansion of currency takes place after the event of financing the exports. The gold standard reserve is the only reserve for expanding the currency. Quite recently some amount of elasticity has been imparted to it.

(5) There is no automatic contraction of currency under this arrangement. The rupee is not only a national coin circulating in India alone, but it is neither meltable nor freely convertible into gold.

(6) It has often been designated as a managed system. Although there is nothing wrong in the mere fact of management everything depends on the fact that it impedes the automatic working of the natural forces. Suppose England is indebted to us and pays it in the shape of sterling to the Secretary of State for India. Rupees will be issued here, and there is an expansion of the price level in this country. The price level of England suffers no change, as gold has not left its shores, but allowed to lie in the hands of the British bankers.

(7) It impedes the people from obtaining gold to the full extent of the favourable balance of accounts. The unlimited sale of councils to liquidate the balance forces the country to absorb it only in the shape of silver.

(8) The locking up of the reserves in separate vaults for different objects only tends to withdraw these much-needed funds from the capital market of the country. The credit structure that can be raised on reduced cash holdings is accordingly of a smaller magnitude than it would have been possible for the banking system to raise if these had been amalgamated.

(9) It renders possible the spiriting away of reserves from the country by the sale of unlimited councils. The cash balances of the country can thus be transferred from the country on the pretext of strengthening the hands of the Secretary of State for India in the credit market.

(10) It has unfortunately created a feeling of class hatred among the different members of the community. The exporters always considering a low exchange and stable exchange as the *sine qua non* of their very existence blindly oppose a fluctuating or higher exchange which the consumers might require in order to save them from the disastrous effects of rising prices. The general taxpayers also would obtain a relief from taxation to a certain extent by pitching upon a higher rate for the rupee than a lower one, as the Government has to convert its rupees for paying its sterling obligations in England.

(11) The Gold Exchange Standard system is after all a half-way ideal, and the real goal of the I.C. system is to have an effective gold standard with gold in circulation. (See Sir J. Meston's Budget speech, 1910; see also the Government of India's Despatch to the Secretary of State for India, 16th May, 1912.)

Even the supposed advantages of economy, convenience in transport, cheapness and stability of exchange conditions are seriously disputed by some of the critics of the system.

(1) It is not economical, as it necessitates the laying down of reserves, and as these are being frittered away at some time or other in the vain endeavour to make their rate of exchange effective.

(2) The addition of interest to the reserves is considered as an advantageous thing. But these lie in an unproductive manner by being compounded in the reserves.

(3) The so-called stability of exchange is liable to break down under certain conditions.

(4) It is considered as eminently suitable for the debtor countries like India to discharge their obligations by this method of concentrating their gold for international purposes. India is now a creditor country even after paying the home charges and liquidating the debits against it.

If the Gold Exchange Standard system is not after all an ideally devised and scientific system it has to be discarded, and the other alternatives have to be briefly considered. The possibility of re-establishing the silver standard, the possibility of establishing a managed standard as recommended by Fisher or Keynes and the resumption of the gold standard has to be examined at this stage.

V.—Alternative Standards.

(A) *The Silver Standard.*—Though silver eminently suits the requirements of the population, still it is too late to think of reverting to the silver standard for the following reasons: (1) Silver production is apt to be restricted in the future. From 1914 the production of silver has been steadily falling. (2) All other countries have selected gold as the standard, and the liquidation of the balance of accounts would become complicated, specially during the years of unfavourable balance of accounts. (3) It would involve a change in the standard, for, officially speaking, the gold standard has been supposed to be in existence in India already. (4) In the purchase of silver the India Government would become a prey to the ring of silver speculators in England and America.

(B) *The Fisher Ideal.*—Adopting the fixed monetary stick as the desirable ideal that a country has to achieve he proposes to obtain it by calculating an official index number of prices and adjusting the official weight of the currency unit at which the Government would issue gold certificates to miners or redeem them for jewellers. That this system can be applied to this country has been the opinion of a few thinkers, but unfortunately the Indian people, who do not understand the measure, would consider that the index number is being manipulated by interested parties, and after all the alteration of the supply of money would take place after a change in the price level.

(C) *The Proposal of Keynes and other Currency Reformers.*—These reformers propose to attain the stability of prices by influencing the monetary factor. Many causes, monetary and non-monetary, exercise their influence on the price level. They wish to control the price level by exercising pressure on the monetary situation. Prices generally depend on the relationship between money and goods. Money being understood not in the sense of metallic money alone, but in the sense of total purchasing power, and may consist of metallic money and of credit acting as substitutes for metallic money. The real meaning of stability of prices is to stabilise the relationship between money and goods. If the stream and flow of goods entering into the market is ascertained, and if the volume of money is made to correspond with this stream of goods, the level of prices tends to be stable. It is a well-known fact that in our modern industrial society the banks create the major portion of the purchasing instruments. The creation and cancellation of all purchasing power is done by the banks. If only this policy of creating credit or restricting credit can be controlled in the real interests of society the main objective of the reformers would be achieved. The expansion or contraction of credit has to be so devised that the total stock of money is made co-equal with the volume of goods manufactured by the entrepreneurs of the society. The supply of credit is to be regulated by the central bank's discount rate. The entire banking policy of a country, says Professor Cassel, must have no other economic goal than the stabilisation of the price level. Professor Keynes goes a step further than Cassel, and says that "in countries where a centralised banking system does not exist this policy cannot be pursued with advantage." But "they need not despair," says Keynes. They have only to secure a stable exchange value of their currency in another country's currency whose internal value is stable. Mr. Keynes suggests that the U.S.A. and England should separately endeavour

to secure internal stability of price level, and other countries might then conveniently use the dollar and the pound sterling as a basis for the stabilisation of their exchange rates. Thus stability of their price level can be obtained. Only if one large country or two large countries were to stabilise their currencies, and other countries were to stabilise their exchange rates with these countries' currencies, international stability of prices can be obtained. Though Keynes has worked out his policy for the stabilisation of prices in an elaborate manner the best exposition of this policy of attaining economic stability through monetary regulation and credit control is furnished by Carl Snyder. According to him there are three definite stages in the policy. Firstly, the stabilisation of the price level should be set down as the correct object. A definite norm has to be established, and 3 per cent. variation has to be allowed. Secondly, the principal means that should be adopted to secure this object are the manipulation of the rediscount rate of the F.R. Board, as done in 1923, and the purchase and sale of securities by the F.R. banks. Thirdly, satisfactory information as regards the price level has to be gathered and forecasting indices have to be constructed to permit "anticipatory" action to be taken in the application of the above measure. This is to enable the F.R. Board to take preventive action instead of compensatory action after the prices have changed. To forecast the future trend of prices he depends chiefly on the index of the volume of trade and the index showing the rate of turnover of average bank deposits. This part of the proposal is certainly a definite step in advance which he has made beyond Professor Fisher's suggestion, and inspires one with the fond hope that success might be achieved by this sort of action. The Bank rate can control credit and through credit prices. But this monetary brake has to be judiciously applied at the psychological time, so as to prevent the boom of which the trade depression is only the inevitable reaction. The banks can not only check unhealthy expansion of trade, but they can avert a possible monetary crisis and stimulate business expansion during days of depression. The banks can give "castor oil" to cure the "constipation of congested currency." The lowering of the Bank rate, coupled with the policy of pushing the deposits into circulation, would tend to business expansion. Though no absolute stability might be obtained by the Bank-rate weapon, still its judicious use would restrict the fluctuations to a narrow limit.

This bank rate weapon cannot be thought of in this country, as the banking system does not control the volume of currency created in the community. This requires careful management of credit, and it would be useful only in those countries where credit performs 98 per cent. of the exchange transactions in the society.

Thus all the proposals for an alternate standard to the gold standard system are difficult and impracticable at the present level of the banking system of this country, and unless it has been improved to a great extent we cannot hope to think of controlling the credit policy of the banks and achieve tolerable stability of the price level.

VI.—The Gold Standard System.

All other countries have returned to the gold standard. By April, 1925, England, Australia, New Zealand had returned to the gold standard. Holland, Sweden, Germany, the U.S.A. and the whole of the British Empire are on the gold standard basis. Gold has once more become the medium through which the international payments are being effected. Even the enlightened people of civilised countries have no faith in the schemes for managing the currency and they have "no faith in the Treasury activities in the direction of controlling the currency standard." Popular sentiment in this country has been leaning more towards the direction of possessing the gold standard and, in the domain of currency, popular prejudices and popular sentiments have to be respected. The economic ideal might be scientific, practicable and advantageous to the community in the long run but an enforced realisation of the ideal against the popular current is only to court disaster or failure. The restoration of the gold standard system is the only practicable measure that would satisfy popular wishes. The irrelevance and the artificiality of the gold standard are well-known to need any comment from me. It does not secure stability of the price-level. It leads to a waste of the useful commodity as it is used as money. Against these two disadvantages might be placed the following advantages which would result out of the restoration of gold standard system in this country. It would tend towards an unlocking of the small hoards and their being utilised as industrial capital.

It affords the needed impetus to industry. It would link this country with the gold using countries and establish a limit to the possible fluctuations of exchange. It would initiate a parallel movement of prices in our country following generally the course of prices in the gold using countries. India's going over to an effective gold standard would lead towards increasing the demand for gold and the value of gold would not fall if the Eastern nations are allowed to absorb the annual production of gold to a certain extent. If the gold production were to be heavy and if industrial production were not to increase there would be a fall in prices and it might act as a check to productive enterprise. Even if gold production were not to be the same as in the pre-war years still the western countries after the recent education in the use of paper would certainly economise the stock of gold and require lesser reserves for their credit structure than before. This would throw a large stock of gold on the market and unless absorbed by the East there would be a fall in prices. This is not desirable. India's going over to the gold standard system would tend to balance and augment demand and keep up the level of the value of gold. The restoration of the gold standard means literally fulfilling a promise which the Government made long ago and in these days when the prestige of the Government is at a low ebb this step would go a long way in reviving the lost faith of the people in British justice. Gold is considered as the sign and symbol of political freedom by our people and when it is easily available to them whenever they require it they would give up the hoarding habit. The drain of consumption would still have to be reckoned if gold coins are placed in the hands of the people. This can be given up only when social advance and enlightenment has gone a great way in our society. The insecurity of the individual earnings from being amalgamated or compounded in the joint-family property, the anxiety to make proper provision for the future on the part of our women as they are deprived of the means of earning their livelihood and the necessity of its use in certain social circumstances have led to the absorption of gold to a certain extent. It is not the removal of the token rupee alone that would establish the habit of circulating the gold coins, but certain of these other forces that conjointly act in making the people lock up their wealth in the shape of gold have to be simultaneously attacked. The demand in India is more for the metal gold than for the gold coin and hence these would find their way to the melting pot or fall into the hands of the bullion dealers. It might be stated that the use of coins can be brought about by making it compulsory that gold coins alone should be used in the payment of land revenues, excise duties, customs, railway and irrigation dues. This has been done by America during the Civil War when the Custom duties had to be paid in gold. This would, however, place a great hardship on the poor people. Hence there is not much possibility in succeeding from making the people melt the gold for their social or religious necessities. Like the other gold standard countries India would have to economise the use of gold by means of paper based on gold and convertible into gold with the least possible delay or obstruction. Cheques as well as bank notes can be relied upon for this purpose of economising gold. But this can be realised only under a thoroughly organised banking system under the effective supervision of a Central Bank. Without this organisation it would be difficult to operate successfully a gold standard system making great use of gold coins. The matter would have been simple if the gold unit were to be a suitable medium for the country but considering the low level of our incomes and the low cost of our basic requirements no gold coin can afford to oust the present silver rupee from circulation. The problem of the rupee complicates our currency question and as a good number of these coins are in circulation or placed in the hands of the people and as these possess unlimited legal tender any change affecting their position would have to be seriously considered. Under a gold standard system, silver or any other metal cannot be unlimited legal tender. It might be used as subsidiary coin but its status has to be definitely reduced to the one of a token coin. It is inevitable that the silver rupee would have to be declared as a token coin and declared limited legal tender and just as the present token coins are issued by the State in limited quantities they would have to be issued in the future but any enlarged issue would tend to drive out the standard coin. As the possibility of making profits is great there would be a tendency to overissue them; hence the best possible course is to stop minting the rupee and making the existing quantity limited legal tender so that their value would not be adversely affected. For coming over to the gold standard the present privileged position of the rupee has to be curtailed. A country can be said to possess really a gold standard whenever gold money is available to the people on demand. Practical conversion and mere theoretical

authorisation of its availability is the touchstone of an efficient gold standard system. The people should possess the right to coin their gold bars or bullion into standard money. Whether the state bears all charges under the free and gratuitous system of coinage or charges brassage—a cost just enough to cover the expenses of minting it is immaterial but it is one of the inalienable rights of the people to coin their gold into legal tender money. So far as external relations are concerned the people possess the freedom to export or import gold out of the country. They also possess the freedom to melt all the gold coins they desire for industrial purposes. Until these rights are assured to the people there can be no effective gold standard in our country.

VII.—The Adoption of the Gold Standard.

Several writers have commented in great detail on the necessary steps that India has to take in going over to the gold standard system. The first essential, as has been already pointed out, is to destandardise the rupee. It must no longer be unlimited legal tender. Its coinage must no longer be unlimited as at present. Gradual demonetisation of the rupee is the thing required and a progressive gradual delimitation of the legal tender quality has to be arranged. For the first few years the limit might be fixed at a higher figure and gradually the limit might be lowered say to hundred rupees. It is not essential to undertake the conversion of the existing stock of rupees into the standard gold coin to be adopted. The principle of limitation would ensure the steadiness of its value.

Secondly mohurs and half-mohurs of the same weight and fineness as the British sovereign and half-sovereigns should be minted and declared unlimited legal tender. The increase of population and expansion of the business needs of the community require an annual addition of stock to currency and this addition in the future would have to be made in gold.

Thirdly, the note-issue has to be handed over to the Imperial Bank and the paper currency reserve has to be amalgamated with the bank reserve. The general fabric of the banking system of this country has to be improved on the lines stated in my book, " Present Day Banking in India," and if one closely examines the recommendations of the External Capital Committee, one would find a close parallel between the recommendations made by it and the outline of suggestions that I have drawn. (See Banking Reform, ch. XII—of my book, " Present Day Banking in India.")

Fourthly, if the Government were to decide upon fixing the exchange ratio, the future ratio of exchange between the rupee and the mohur, it has to take into consideration the future possibilities of gold and silver production and carefully fix the rate. The old rate of Rs. 15 to the sovereign need not necessarily be accepted. The recent rise in the gold value of the rupee should not be unnecessarily lost sight of or given up for the old rate.

But for exchange purposes the gold standard system would automatically link our standard with the other gold standard countries. By the free inflow and outflow of gold bullion and the mohurs the international payments can be affected smoothly and in the days of adverse balance of accounts the holdings of foreign securities held by the Imperial Bank in the foreign contres would have to be melted as the occasion arises.

VIII.—Other Incidental Measures.

Until the banking system is perfected and the people have learnt the value of the banking habit the operation of the gold standard which is nothing but a goldless gold standard would not function smoothly. An immediate going over to an effective gold standard would cause inconvenience to the Government for making the necessary gold available, i.e., if paper currency were declared convertible into gold there is not the 50 per cent. of gold required as the reserve. The conversion of the silver into gold would involve heavy loss. But if the people are educated in the matter of their currency habits by a sound banking system it would enable the banks to get on with small reserves and depend on the " psychological reserve " or confidence in the minds of the people.

Secondly, the Government must begin to hoard gold in the reserves and as soon as the reserve position as composed in the gold stock is great the free convertibility of rupees into gold can be undertaken. But this, as stated already, is not essential for the present declaration of adopting the gold standard and so long as the limited legal tender quality is attached to it.

Thirdly, the question of increasing our sterling obligations has to be curtailed in the near future until an effective gold standard has been operating. The free flow of gold would be facilitated and the payment of the interest can be easily arranged by the Central Bank.

Lastly, the perfection of the education of the people, the raising of the standard of living and the development of banking should have to be undertaken along with the attempt to introduce the gold standard with gold in circulation. Again, the financial policy of the Government of India should rest solely in the hands of the Government of India. There is a shrewd suspicion in the minds of the Indian people that the real policy of the Government of India is dictated more by the needs for the economising of gold in the L. M. market than anything else. Financial autonomy and political autonomy must go hand in hand, and with an open declaration of their policy they can seek the co-operation of the Indian public and it would not be denied to them if all the cards of their financial policy are laid on the table.

APPENDIX 36.

Statement of evidence submitted by Mr. J. C. Sinha, Reader and Head of the Department of Economics, Dacca University.

Both the external and internal factors are at present favourable to the solution of India's currency and exchange problems. Most of the European countries have returned to gold standard or at least to gold exchange standard. The most significant fact in this connection is the restoration of the Gold Standard in England. Even the British Colonies like South Africa and Australia have returned to gold. The possibility of the currency condition abroad, disturbing the Indian monetary system, is now less than it was even a year ago. Coming to internal factors we find that India has had a succession of good harvests for the last few years with a keen demand for her foodstuffs and raw materials abroad. The trade balance has turned again in her favour from 1922-23. We have also a surplus budget.

2. With regard to the comparative importance of stabilization of prices and stabilization of exchange, it may be observed that these two are not always incompatible. If the internal and external price-levels are stable, stability of exchange will follow as a matter of course. But when the price-level abroad is moving up and down, we have to choose between stabilization of prices and of exchange. In such a dilemma, stabilization of price-level is to be preferred in a country like India, because internal trade is more important here in the economic life of the people than foreign trade.

3. But the policy of price stabilization labours under certain difficulties. It cannot be secured either under gold standard* or gold exchange standard. It can be best attained with paper currency regulated according to the index number of prices. Such a scheme has nowhere been given effect to and the time for adopting it in India has not come as yet. It is true that our rupee is a note printed on silver and from 1921 the Government of India did actually maintain a fairly stable level of internal prices. But this policy appears to have been recently abandoned for the sake of a stable exchange. Apart from popular distrust, stabilisation of prices, through the expansion and contraction of rupee currency, is difficult in India in the face of the persistent agitation of the merchants engaged in foreign trade who want "stability first and foremost" in exchange. The plan for the stabilisation of prices with the manipulation of rupee currency may also be upset by the rise in the gold value of silver which may throw the rupee into the melting pot.

4. It will be too late now to revert to a pure silver standard which has been abandoned by all civilised countries. We have to choose therefore between the gold standard and the gold exchange standard. Between these two, I would advocate gold standard with gold notes and coins in circulation, the rupee being a limited legal tender. This is certainly not the ideal form of currency but it is the best under our present circumstances. I do realise that the circulation of gold

* By gold standard is meant a system of currency in which all kinds of money in circulation are ultimately convertible into full bodied gold money and that money is freely convertible into gold bullion and freely exportable.

coins in the place of silver means some extra cost and the cost of conversion of silver currency into gold will be fairly heavy. But this cost ought to be paid for the final settlement of our currency and exchange problems.

5. It appears however that the extra cost in the circulation of gold coins has been greatly exaggerated by the *pundits* of the Chamberlain Commission. As Professor Cannan rightly observes "the single advantage offered to a country by the adoption of the gold exchange standard system, instead of the simple gold standard is that it is cheaper, in the sense of requiring a little less value in the shape of metallic currency than the gold standard. But all that can be saved in this way is a trifling amount *almost infinitesimal*† beside the advantage of having a currency more difficult for administrators and legislators to tamper with."

6. Assuming that the active rupee circulation now is what it was in 1921, i e., 220 crores‡ and if one-half of that is replaced by gold coins (the percentage of rupees which will be replaced by gold coins, will, in my opinion, be far less than 50) the additional cost on account of the circulation of gold will not exceed one lakh of rupees per annum.§

7. I do not think that gold coins will form "formidable rivals to currency notes" and thus increase the cost of circulation of gold. Such notes are preferred now for large payments and there appears no valid reason to assume that this monetary habit will change after the adoption of the gold standard. In fact, gold being more easily available under the gold standard, the hoarding of gold coins will disappear to a considerable extent. It is true that gold sovereigns are at present melted in the *mofussil* for making ornaments of the Indian ladies. The real remedy for such a wasteful use of gold coins is not to stop the issue of gold coins but to make gold of a definite standard of fineness available in the *mofussil* in small bars. If the head post-offices in the districts or the district treasuries or the branches of the Imperial Bank sell gold, say $\frac{11}{12}$ths fine, in small lots, the melting of gold coins for use in the arts, will be materially reduced.

8. The circulation of gold coins does not therefore appear to be "a costly luxury which India cannot afford." It should rather be described as an insurance premium which we should pay to safeguard against the currency blunders of the Government. It may be noted here that a single mistake in currency policy like the sale of reverse councils in 1920 cost the Government at least 33 crores of rupees apart from the losses to the Indian traders and businessmen.

9. In estimating the cost of gold circulation, we should also consider the economic and political advantages of the gold standard. With this standard, the country will be set free, at least for a fairly long time, from bitter controversies in currency and exchange. The currency will become more automatic so as to inspire the confidence of the people. Gold standard without gold currency, will not satisfy the Indian public. It is economically and politically unsound to flout Indian opinion in this respect. With the adoption of the gold standard, the exchange rate with gold standard countries will become quite simple. The Government would thus be able to give up elaborate management of our currency and thus save itself from much public criticism. The political disadvantages of the gold exchange standard are not sufficiently realised by our currency experts. The currency policy of the Government since 1893 has often helped the political agitator. Sir Valentine Chirol writes that the sale of reverse councils in 1920 and the subsequent fall of Indian exchange were mainly responsible for the success of the non-co-operation movement among the Indian merchants and businessmen.

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† The italics are mine.

‡ This was Professor Jevons' estimate for 1921 in his *Future of Exchange*, p. 40. I have not the latest figures at my disposal for calculating the present rupee circulation, but the above figure roughly represents rupee circulation at the present time. In fact the circulation now will be somewhat less than 220 crores because the note circulation now is larger than what it was in 1921 and the present price-level as represented by the index number, is lower.

§ This figure has been derived from the following calculation. The average abrasion in a rupee, according to a note by the Controller of Currency, in the Report of the Indian Retrenchment Committee is 1·5 per cent. in 50 years. If it is assumed that the average abrasion in the case of a gold coin is the same as in the case of the rupee and the wear and tear of the rupee affect only two-thirds of its face value because the bullion value of the rupee is generally two-thirds of its face-value, the actual cost of the circulation of gold coins worth 110 crores of rupees will be greater than that of the same sum in rupees by $\frac{110 \times 100 \times 15}{10 \times 100 \times 50 \times 3}$ or $\frac{11}{10}$ or 1·1 lakhs of rupees. The additional cost of gold circulation will be less than 1·1 lakhs of rupees per annum because (1) gold will form a smaller percentage in circulation than we have assumed and (2) the abrasion in the case of gold coins which will be of higher denomination than the rupee, will be less than 1·5 per cent in fifty years.

Though a modern Government cannot follow a complete *laissez faire* policy in currency matters, it is desirable even from a purely political point of view, that the Government of India and the Secretary of State should divest themselves of the management of currency and exchange as far as possible. The best way of doing this is to substitute gold standard in the place of the gold exchange standard.

10. The only important argument against the adoption of gold standard and gold currency in India from the standpoint of international considerations is that this change in our currency policy may cause an alarming drain on the existing stock of gold in the world and bring about a serious fall of prices in the Western countries. This does not appear to be a serious argument for refusing the gold standard to India. Dr. Gregory has estimated in his *Return to Gold* that by 1937, the world's output of gold and the addition of required banking reserves would about balance and "before that date there would be a surplus of production available for industrial uses and the East, without prices falling or reserve ratios declining." Sir James Wilson is also of opinion that the world's available supply of gold is now increasing faster than the world's effective demand for it. It is thus to the economic interest of the Western nations that India should adopt gold standard and gold currency.

11. How to bring about this change is the question. The first thing we have to do is to determine the rate of exchange between the rupee and gold for the transition to gold standard. In selecting this rate we should look not to the special interest either of the importers or exporters or of a particular industry or industries. If any industry is to be assisted, a better method would be by a system of bounty or protection or both and not by manipulation of the exchange rate. This rate should be so selected that it can be easily maintained till the establishment of the gold standard is complete when this ratio between the rupee and gold will cease to be of any great importance.

12. There is something to be said in favour of the present 1*s*. 6*d*. rate which has been maintained since October, 1924. But I doubt whether this rate will continue for long. Sir James Wilson writes in a recent article in the *Asiatic Review* that the rise in the gold value of the rupee during the last nineteen months is about 20 per cent. With increased production of commodities in Europe, the general price-level may fall there, bringing down at least to same extent the present gold value of the rupee. Good harvests in India do not generally continue for a series of years. The failure of a single monsoon by raising the price of our exports, may reduce the demand for rupees from abroad and thus lower our rate of exchange.

13. But in spite of this fact there is no immediate possibility of exchange going down to 1*s*. 4*d*. Europe's supply of capital and labour is not unlimited. For years to come she will devote a considerable portion of her capital and labour in repairing the ravages of the Great War. To quote a single instance, the reconstruction of the Rheims Cathedral means diversion of capital and labour from the production of food and raw materials of which there is such a dearth in Europe. A large export of food-stuffs from Russia cannot also be expected. It is true that she has reorganised her currency, but her transport system is still quite disorganised. Her method of production is not likely to attain the pre-war standard in the near future. There is thus every possibility that Europe's demand for our food and raw materials will remain keen at least for the next five years. There is also no immediate possibility of a severe deflation policy in the currencies of Europe, reducing her demand for Indian goods. I think therefore that it is not necessary to push down our exchange rate to 1*s*. 4*d*. especially in view of the fact that it will involve so much inflation of currency. I would advocate 1*s*. 5*d*. rate during the period of transition from our present system to the gold standard. It will mean far less inflation of currency than in the case of the 1*s*. 4*d*. rate and will be more easily maintained than the present 1*s*. 6*d*. rate.

14. Much inflation of currency will not be necessary to make the 1*s*. 5*d*. rate effective. The mere announcement that India will adopt gold standard at that rate and that her future demand for gold will increase, will have their effect on the value of gold. Gold will slightly appreciate in terms of commodities and also of the rupee. In other words, our exchange will fall. If this fall is not sufficient to bring down the exchange to 1*s*. 5*d*. the Government may buy gold in India (both sovereigns and bullion) at the rate of Rs.14 for 113 grains of fine gold. This will put more money into circulation and lower the exchange rate to 1*s*. 5*d*. when such purchase of gold will automatically stop.

15. The next measure I suggest is to strike a new coin called the gold mohur, containing 88·05 grains of gold of the British standard of fineness. The chief reason for this innovation is that the gold sovereign will be an inconvenient monetary unit at 1*s.* 5*d.* rate. This new coin, valued at Rs.10, will be unlimited legal tender in the country. The issue of this gold coin, instead of the gold sovereign, will, of course, mean some complexity in foreign exchange but against this, there are the following advantages. We shall have a gold coin which will be a very convenient unit and there will be no complication with the British Treasury which has up to this time stood in the way of gold coinage in India.

16. The third measure is to reduce the rupee to the position of a token coin which will be a legal tender only to the extent of, say, 50 mohurs or 500 rupees.* Rupee notes will also remain legal tender up to the same sum till they are finally withdrawn. Rupee notes of a higher denomination than Rs. 500 should be immediately withdrawn and replaced by gold notes of the same value. All further coinage of rupees is to be stopped though a few rupees may have to be coined later on from time to time to facilitate retail transactions. But this necessity will not arise in the near future.

17. Rupees and rupee notes returning to the Government, should not again be thrown into circulation but should be replaced by gold mohurs, preferably gold notes of the value of $\frac{1}{10}$th, $\frac{1}{2}$, 1, 10, 100 and 1,000 mohurs. These gold notes should be unlimited legal tender except at the offices of issue, where they must be paid in gold.† Thus for a time two kinds of paper currency will circulate side by side. But this difficulty will disappear with the ultimate withdrawal of rupee notes.

18. Now, where are we to get gold for the circulation of gold coins and gold notes? This necessitates a brief discussion of the probable amount of gold that may be necessary for the adoption of the gold standard. On November 15, 1925, the gross circulation of notes in India was 191 crores of rupees. If the total circulation of notes and rupees at the time be taken to be 400 crores, the figure will certainly not be an under-estimate. On this assumption, the rupee circulation was then 209 crores. If after the adoption of the gold standard not less than 100 crores of rupees remain in circulation, and the circulation of mohurs and gold notes be valued at 90 crores and 210 crores‡ of rupees respectively, we shall require about Rs. 174 crores worth of gold.

19. How this sum is arrived at will be clear from the composition of the Paper Currency Reserve advocated here. Created securities in the shape of Indian Treasury Bills should ultimately disappear from this reserve, though they will have to be retained during the next five years so as not to increase the financial burden of the Government during the period of transition to an effective gold standard. The whole amount of notes in circulation should not exceed the amount of the metallic reserve *plus* the securities reserve and the metallic reserve should in no case be less than 50 per cent. as laid down in the permanent provisions of Act X of 1923. But this metallic reserve, after the introduction of the gold standard, should in the plan advocated, consist of gold and silver in the proportions of 4 : 1. Accordingly, we shall require Rs. 84 crores worth of gold and Rs. 21 crores worth of silver as the metallic reserve for the 210 crores of notes. Thus the total gold required will be 90 crores for actual gold coins in circulation *plus* 84 crores as the gold reserve, i.e., 174 crores in all.

20. Let us now look at the currency assets of the Government which may be realised in gold. We have at present about £40·2 millions in securities in the gold standard reserve. This sum, derived from the profits of rupee coinage, should be used in the conversion of rupees into gold. We may have gold worth 55 crores of rupees by abolishing this reserve and selling the securities. We have also 22 crores in gold coin and bullion, 7 crores in silver bullion and 82 crores in rupees in the Paper Currency Reserve.§ If we set apart 21 crores out of these 82 crores as the silver portion of the metallic reserve for the mohur notes, we shall

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* When the gold standard is effectively established, this limit is to be reduced to 10 mohurs or 100 rupees.

† in the case of $\frac{1}{10}$th mohur and $\frac{1}{2}$ mohur notes, gold is to be paid only so far as these notes are presented in units of 1, 2 or more mohurs. But for fractional sums in mohurs, the payment will obviously be made in rupees.

‡ The issue of $\frac{1}{10}$th mohur notes which are good substitutes for rupees, is bound to increase the total circulation of gold notes.

§ These figures are taken from the Abstract Account of the Currency Department on November 15, 1925.

still have 61 crores of rupees. We may get about 40 crores* worth of gold by selling this 61 crores as bullion. Twenty-two crores in gold coin and bullion and 7 crores in silver bullion in the Paper Currency Reserve may also fetch us gold worth 29 crores of rupees. Ninety crores of rupees which, according to our assumption, will be replaced by mohurs, may also be sold as silver bullion and bring gold worth 60 crores of rupees. Thus we shall altogether have 55 + 40 + 29 + 60 or 184 crores in gold, i.e., 10 crores more than what is necessary for the circulation of 90 crores of rupees in mohurs and 210 crores in gold notes.

21. But against this note circulation we have also to provide for securities reserve of 105 crores. At present the total securities in the Paper Currency Reserve are valued at 80 crores of rupees. We require therefore an additional sum of {105 − (10 + 80)} or 15† crores of rupees for the adoption of the gold standard. This may be raised either by a loan or by providing it out of the annual revenue of the Government of India at the rate of 3 crores of rupees per annum. I prefer the latter course because already there are 49·6 crores of rupees in created securities in the Paper Currency Reserve which are really Government debts for which they do not pay any interest. It will not therefore be desirable to increase still further the debts of the Government on account of currency reform.

22. The above plan forms only a rough sketch and the figures are given only to illustrate the main principles of the currency reform advocated by me. If they are followed, I believe it will be possible to have an effective gold standard in India by 1930 without any heavy cost. Both the internal and external conditions are favourable and the present opportunity should not therefore be lost.

23. Some supplementary measures will also be necessary during the next five years. Active steps should be taken for the increase of banking facilities so as to reduce the waste due to the circulation of gold coins. During the period of transition to gold standard, the management of paper currency should remain in the hands of the Government. An endeavour should also be made to keep the exchange rate fairly steady at 1*s.* 5*d.* during this period, generally by the purchase and sale of gold in India. When the gold standard will be effectively established exchange rate should be left to follow more or less its own natural course. It will then simply be the rate of conversion of one kind of gold currency into another. The Secretary of State and the India Office should be relieved as far as possible of their work in connection with Indian currency and exchange even during the transition period. After the establishment of the gold standard, the Secretary of State's interference with Indian currency and exchange should altogether cease. The sale of Council Bills in England should be immediately stopped. The home charges may be remitted by sterling purchases through the Imperial Bank as is done now. But the money which will be thrown into circulation as the result of such purchases should be mohurs and preferably gold notes and not silver. Such purchases should also be generally confined to the amount necessary for meeting the home charges. Ultimately the work of the Government in connection with exchange and note-issue should be transferred to the Imperial Bank but only after imposing special conditions on the bank to safeguard the interests of the Government and the Indian public.

Addendum subsequently submitted by Mr. J. C. Sinha.

In my written statement above, the additional sum required as reserve for the adoption of the gold standard has been estimated at 15 crores, the existing sterling securities and the gold in the paper currency reserve having been valued at the statutory rate. But if the rate of 1*s.* 5*d.* recommended by me be taken for this valuation, nothing would be required for this purpose; on the other hand, there would be a surplus of 3·60 crores as estimated below. This however involves the retention of the *ad hoc* securities at their present figure, which I cannot

* We have assumed that for every rupee sold as bullion, ⅔rds of its value will be realised in gold. This is true so long as the gold price of silver remains fairly stable at the existing rate. Rupees should therefore be sold gradually so as not to depress much the gold price of silver.

† The question of Treasury Balances has not been separately considered in the above calculation because a portion of such balances is included in the gross circulation of notes. Of the remainder, a part at least remains idle and does not require immediate conversion into gold or gold notes.

recommend. For, a portion of the *ad hoc* securities had to be "created" to bridge up the gap between the market value and the statutory value of the paper currency reserve. Now that I have recommended to restore these to parity this portion of the *ad hoc* securities should be cancelled. The extent to which this cancellation should be carried out may be estimated as below, taking the currency figures for 15th November, 1925 :—

Difference between the rupee equivalents at 2s. and at 1s. 5d. of	*Amount of reduction in* ad hoc *securities in crores of rupees.*
Gold; approx. value £22·32 mil.	9·19
Sterling securities; approx. value £23·00 mil.	9·41
Total ...	18·60
Deduct ...	15·00
Surplus ...	3·60

APPENDIX 37.

Statement submitted by the Bengal Chamber of Commerce.

1 (a) *Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for the stabilisation of the rupee or otherwise?*

The Committee of the Chamber deem it to be of the highest importance that an attempt should be made at the earliest opportunity to solve the Indian currency and exchange problems, for they regard the present position as unsatisfactory. But although they take this view they do not feel confident that the present is an ideal time for the attempt at stabilisation. Nevertheless if the Commission after completing their investigation arrive at the conclusion that stabilisation is feasible now, and that the policy determined upon can be made effective, the Committee of the Chamber would support immediate action.

This is in brief the attitude of the Chamber, but the Committee feel that it is also necessary to indicate as shortly as possible : (*a*) the principal reasons why they consider the present position to be unsatisfactory, and (*b*) why they are doubtful if the time is yet ripe for an attempt at stabilisation.

With regard to (*a*), it is unsatisfactory that the fluctuations of exchange have no automatic upper and lower limits as would be the case if the gold exchange standard system, which hitherto has been the foundation of the Indian currency and exchange system, were working properly. While the Committee recognise that Government have endeavoured to control the variations of exchange, the extent to which they were prepared to operate has hitherto been a matter of uncertainty, and the possibility of Government increasing or decreasing their purchases of sterling has introduced an unknown factor into calculations, which necessarily creates a lack of confidence. Moreover, it is entirely a matter of conjecture whether Government could or would take measures to moderate a fall in exchange in the event of a failure of the monsoon, or a sudden phase of weakness due to some other unforeseen cause.

Further, the absence of facilities for an automatic regulation of the volume of currency has rendered Government liable to criticism in their attempts to provide currency for the requirements of the country. A year ago there were general complaints that the country was being starved of currency, whereas to-day the situation is almost the reverse, and it has been suggested that recent additions to the currency have not been warranted by the actual demand for currency.

With reference to (*b*) it is of course recognised that the return of Great Britain to the gold standard has removed one of the main objections to an attempt to stabilise the rupee. So long as sterling and gold bear a definite relation to each other the fixation of the rupee in terms of gold would go a long way towards solving both exchange and currency difficulties. But if there were again to be a divergence the fixation in terms of gold would result in further fluctuations in terms of sterling with all the resultant uncertainty which was experienced after the experiment of 1920.

The Committee do not feel competent to express a definite opinion on the various factors bearing on the maintenance of the gold standard in Great Britain, such as the economic situation there, the gold problem in the United States, the condition of the exchanges of some of the principal European countries, the settlement of the international debt problems, and the future of gold prices. In these matters they are prepared to accept the decision of the Commission. They feel however that unless the Commission are satisfied that there is no likelihood of Britain having to reconsider the question of the gold standard it would be advisable to postpone final action regarding the status of the rupee.

Further, with regard to internal conditions the Committee would point out that India has experienced four good monsoons in succession, and it is not unreasonable to anticipate a bad monsoon, or more than one, in the near future They are not convinced that in such an event the resources of Government would be sufficient to maintain exchange at its present level without undue disturbance to the money market. An unsuccessful attempt to support the rate would have incalculable effects.

If, therefore, the Commission are not convinced that Government can make any selected rate permanently effective it would be preferable, the Committee think, that Government should confine their exchange operations to moderating the swing of the exchange pendulum rather than endeavour to bring about equilibrium at a rate which would be unsuitable to Indian conditions.

1 (b) *What is the comparative importance of stability in internal prices and in foreign exchanges?*

To the merchant, stability in exchange is of greater importance than stability in internal prices. He is generally able to deal with the latter in the course of business, and if exchange is reasonably stable internal prices will tend to fluctuate in sympathy with the prices of the commodity markets of the world. A fluctuating exchange however introduces a further uncertain element into his calculations which must necessarily impede business. The Committee recall that a point which was considered of great importance to the country as a whole in the last Budget Speech of the Honourable Finance Member, was that fluctuations in exchange had moderated the range of variations in internal prices. From a mercantile point of view, however, it is preferable to deal with one fluctuating quantity than with two, and the Committee would favour stability of exchange, as against comparative stability of internal prices brought about by a fluctuating exchange.

1 (c) *What are the effects of a rising and falling rupee and of a stability of high or low rupee on trade and industry including agriculture and on national finance?*

This question has been discussed at such length before previous Commissions that the Committee feel it unnecessary to recapitulate all the numerous arguments for and against a high as compared with a low rupee exchange.

In so far as a rising or falling rupee involves a change in the relationship of debtors and creditors they consider that either is unsatisfactory for the country as a whole, as any advantage to one section of the community is obtained at the cost of another section. Stability at a suitable point is the ideal state of affairs and the level chosen should be such that the minimum of disturbance is caused to outstanding contracts between debtors and creditors. It is a truism that ultimately it is immaterial what level is chosen, as prices and wages will in course of time adjust themselves to whatever rate of exchange may be made effective, but it is just as unfair that the reduction of the home charges of the Indian Government should be considered a reason for the enhancement of the value of the rupee, as that possible benefits to the agriculturist should be made an excuse for inflating the currency and reducing the value of the rupee.

After a period of fluctuating exchange it is obvious that the fixation at any point cannot be universally equitable, but the object to be aimed at should be to cause as little fresh disturbance as possible.

2. *In relation to what standard and at what rate should the rupee be stabilised if at all? When should any decision as to stabilisation take effect?*

In speaking of stability of exchange the natural inference is stability in terms of sterling, in which terms it has been customary for years past to quote the rupee. At the same time the Committee think that it is desirable that the rupee should have a fixed relation to gold, which is the basis of the currencies of the countries

with which India conducts the bulk of her trade. It is their opinion, therefore, that stabilisation should be in relation to gold in order that India may come into line with the important trading countries of the world. They cannot however contemplate with equanimity the possibility of fluctuations in terms of sterling in the event of changes in the relation between sterling and gold, and for this reason as already stated in their answer to question 1 (*a*) they would prefer to postpone any effort to stabilise the rupee in terms of one unless it is certain that the practical result would be stability in relation to both.

With regard to the rate at which the rupee should be stabilised it would appear that conditions are adjusting themselves to the current rate of 1*s.* 6*d.* It seems probable that, in view of the Honourable Finance Member's assurance that Government would prevent the rate rising above 1*s.* $6\frac{3}{16}$*d.* there will be no serious divergence from the present point while the Commission are conducting their deliberations, and the Committee have come to the conclusion that if the rupee is to be stabilised it should be at the rate of 1*s.* 6*d.* They take the view that it would be undesirable to force the rate down to 1*s.* 4*d.* or up to 1*s.* 8*d.* The rate should be sufficiently high to ensure that the exchange value of the rupee shall always be higher than its bullion value. The Committee consider that to ensure a sufficient margin of safety the rate should not be fixed below 1*s.* 6*d.*; and for this reason they do not recommend any attempt to restore the old rate of 1*s.* 4*d.* A further point for consideration in this connection is that deliberately to force exchange down to 1*s.* 4*d.* would involve a rise in the prices of consumable commodities, which might cause unnecessary hardship to the poorer classes, and bring about a recrudescence of the economic discontent which was a feature of the later years of the war. In addition it must also be remembered that the rise in the exchange value of the rupee, from 1*s.* 4*d.* to 1*s.* 6*d.*, has been largely offset by an increasing range of tariffs on imported commodities. At the same time they would deprecate attempts to raise exchange to 1*s.* 8*d.* or any higher figure, which would necessitate considerable deflation and re-adjustment of conditions generally.

The decision to stabilise should take effect immediately on the publication of the Report of the Royal Commission, assuming that the rate selected for stabilisation is 1*s.* 6*d.*, and that the market rate is approximately at that level at the time.

3. *If the rate selected differs materially from the present rate, how should transmission be achieved?*

The Committee do not propose to deal with this question for, as they have already endeavoured to make clear, they are very strongly of the opinion that the rate to be selected ought to be the rate current at the time of selection.

4. (a) *What measures should be adopted to maintain the rupee at the rate selected?*

(b) *Should the gold exchange system in force before the war be continued, and with what modifications if any?*

Assuming that the rupee can be stabilised in terms of gold the establishment of a free gold market in India with Government prepared to buy or sell at a fixed parity would be sufficient to keep exchange stable between the gold import and export points. Under the pre-war system, in order to avoid unnecessary movements of gold Government frequently entered the exchange market through the medium of the sale of Council Bills or Reverse Councils, as the case might be, thereby facilitating trade remittances in whichever direction the demand might arise. This system ensured stability for a number of years, and the Committee would be disposed to favour its reintroduction. It should, however, be modified in one respect. Whereas by the sale of Councils without limit, or by the purchase of gold, the upper limit of exchange was guaranteed, there was no official undertaking to prevent exchange from falling below the lower nominal gold point. The Committee think that an undertaking should be given in respect of both the maximum and minimum rates of exchange in any future scheme of stabilisation. Whether Government should maintain these rates by operating in sterling or gold must depend on market conditions and the state of Government balances in India and in London. It would be unwise to lay down any hard and fast rules on the subject.

4. (c) *What should be the composition, size, location and employment of the gold standard reserve?*

As regards the composition of the gold standard reserve, the Committee of the Chamber agree with the Babington-Smith Committee that it should contain a

considerable proportion of gold, and that the remainder should be invested in short-dated British Empire securities other than those of the Government of India.

As to the size of the reserve, the Committee recommend that it should be allowed to increase to a much larger figure than £40 millions at which it now stands. The profits on coinage should continue to be added to it, together with the interest on the investments. No decision should be arrived at as to its ultimate size, as it might be permitted to increase until it was large enough to allow of the introduction of an effective gold standard.

Seeing that the reserve is to function in London it should be located there, but, as was recommended by the Babington-Smith Committee, a portion of the gold held in it should be located in this country, and such gold as is held in London should be earmarked.

The reserve should be employed solely for the purpose of regulating exchange, and ultimately for the consolidation of the currency. It ought not to be drawn upon for any other purpose, and when it is drawn upon for exchange purposes, a corresponding contraction of the currency in India should be made.

5. (a) *Who should be charged with the control of the note issue, and on what principles should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?*

The Committee favour the idea that the note issue and the whole of the monetary reserves should be under the control of a central banking authority. This would involve the reconstitution of the Imperial Bank of India, as they do not think that it would be of any advantage to the country as a whole, nor fair to existing banks, to place in the hand of the Imperial Bank of India the responsibility of managing the note issue as agents of Government.

The Imperial Bank is at present a trading bank, and private shareholders have the principal voice in directing its affairs and policy. Under the new constitution the shareholders should become consultative and advisory, with a limited interest in the profits.

The Committee suggest, in connection with the proposed reconstitution, the necessity of the transfer of the personnel of the Currency Department of the Government of India to the Imperial Bank. In the new constitution of the Imperial Bank Government should have a large measure of control, and every precaution should be taken to prevent the creation of a banking monopoly. The interests of the exchange banks and indigenous banks should be carefully safeguarded. Free transfer of funds in India to other banks should be guaranteed. It should be a clearly-defined policy of the reconstituted Imperial Bank to encourage the banking habit throughout India by opening new branches, but, as a general rule, new branches should not be opened in places where other well-conducted banks already exist. It should be the duty of the Imperial Bank to re-discount approved hundis from other banks.

(b) *What provisions should be made as to the backing of the note issue?*

The primary function of a paper currency reserve is to ensure ready convertibility. For this purpose a sufficiently large part of the reserve should be held in rupees. So long as a sufficient proportion of the reserve is held in this form the balance may be in such form as is calculated to meet the secondary requirements of the Government in regard to exchange, and at the same time be profitable and without risk. With these objects in view it is for the authorities controlling the reserve to determine the proportion to be held in securities and the proportion to be held in coin and bullion.

(c) *What should be the facilities for the encashment of notes?*

It is the opinion of the Committee that every practicable facility should be given for the encashment of notes as and wherever possible.

(d) *What should be the policy as to the issue of notes of small value?*

In addition to the notes now in existence the only small value note the issue of which the Committee recommend is the one-rupee note. They regretted the decision of the Government to withdraw this note, which was greatly liked and appreciated in many districts. They expressed their opinion, which they now

confirm, in a letter, No. 1534-1923, dated 29th May, 1923, to the Government of India, Finance Department, as follows :—

> When the proposal to introduce the note was put forward six years ago the Committee of the Chamber, although they wished to support it strongly, pointed out that there was a possibility of danger, for the innovation was being made at a time of great national crisis. The Government of India were themselves also apprehensive that the issue might have a generally disturbing effect, seeing that a rise had occurred in the price of silver, and that silver currency was generally believed to be scarce. But the result of the experiment fortunately showed that these fears were without foundation. The note was readily accepted, and the Government must have been relieved to find that it so quickly became popular especially in the jute districts. It now seems to be thoroughly well established, and its popularity is sufficient evidence of its value to the public. As must be clear to everybody it is infinitely more convenient, and less cumbersome to carry and to handle, than the silver rupee.
>
> This being the position, it may be safely affirmed that very great value is attached to the one-rupee note by commercial men and the public generally in this province. The Committee of the Chamber would be decidedly opposed to its withdrawal for they have always been, and still are, advocates of the extension of the use of the paper currency. They are consequently glad to see that the one-rupee note has so readily found acceptance; and they would advise the Government not to throw away the advantages which have been thus gained. The situation at the moment is admittedly different to that which existed in 1917 when the note was introduced. But the need may arise again in the future, and it may be that confidence would not be so easily secured a second time.

The Committee further think that it would be advisable to have one-rupee notes in circulation in case at any future date owing to a silver crisis it became necessary to restrict the issue of silver rupees. It would obviously be a simpler matter to expand the existing note issue in such circumstances rather than have to force a new note on the public as was the case when these notes were originally issued. It would be difficult to exaggerate the importance of the value of educating the public to accept notes instead of coin and the one-rupee note more than any other would further this desirable object.

For these reasons they would welcome the re-introduction of the one-rupee notes as soon as this is economically possible.

6. (a) *What should be the policy as to the minting of gold in India and the use of gold as currency?*

The Committee look forward to the ultimate establishment in India of an automatic currency system on a gold standard under which the local circulating medium would be freely convertible into gold. The question of meeting Indian sentiment in respect of issuing legal tender gold coins for internal circulation appears to be largely a matter of cost, but the transition period during which the public were being educated to use goldbacked notes might be facilitated by the issue in the meantime of gold coins of a sufficiently high denomination to limit their circulation as the ordinary currency medium. Such coins would tend in the first place to replace stores of hoarded rupees, thus reducing the liability on these when the time came for declaring the rupee legal tender for a limited amount only. The danger of issuing a gold coin of small value, such as for Rs. 10 only would be that these coins might circulate at the expense of the existing notes of small denomination, and it seems desirable, especially in a poor country like India, that the actual circulating medium should be as cheap as possible. With an exchange ratio of 1*s*. 6*d*. the sovereign and half sovereign would not appear to be suitable coins for legal tender in India, and it would be preferable that the gold coins should be value for even amounts of rupees.

Regarding the minting of any purely Indian coin the Committee think that provided the Indian mints can produce such coins at a less cost than they can be produced in London, arrangements should be made for them to be minted locally.

It will be necessary, the Committee think, even when a gold standard is established, to provide a gold exchange reserve, or a suitable proportion of the currency reserve, in London to meet any temporary crisis caused by an unexpected weakness in exchange.

(b) *Should the obligation be undertaken to give gold for rupees?*

As already stated in their reply to question 4, the Committee consider that an undertaking should be given to maintain exchange at the lower gold point either by issuing gold, or selling Reverse Councils. Should it be decided to mint gold coins, as suggested in their reply to question 6 (*a*), the demand for these, in exchange for notes, or rupees, should be met as far as possible in the meantime pending the introduction of a full and effective gold standard.

7 (a) *By what method should the remittance operations of the Government of India be conducted?*

(b) *Should they be managed by the Imperial Bank?*

The Committee think that the remittance operations of the Government of India should be conducted by the Imperial Bank to the same extent that they are conducted by that Bank at present. But the Government should be free at any time to adapt themselves to the conditions of the moment. So far, experience of the system has been confined to a rising market, and under these conditions it appears to have developed into a satisfactory system. On the other hand in a falling market it might be advisable for the Government to adopt a different method—possibly to revert to tenders in India or in London. Ultimately, should the Imperial Bank become a Central State Bank it might be able, in the ordinary course of its business, to provide for the Government remittances. But for the present it seems to be desirable that the Government should retain the responsibility in their own hands, using the Imperial Bank as their agent. By the word Government the Committee mean the Government of India, as they consider that the Government of India are in a better position to regulate these operations than the Secretary of State.

The Government will be unable for a considerable time to come to divest themselves of responsibility to the public for the maintenance of exchange at whatever ratio may be fixed, and it will be necessary therefore for them to retain full control of the management of remittances, though the actual operations might be conducted through the Imperial Bank as at present.

8. *Are any, and if so what, measures desirable to secure greater elasticity in meeting seasonal demands for currency?*

Should any, and if so what, conditions be prescribed with regard to the issue of currency against hundis?

In discussing this question last year the Committee of the Chamber expressed the opinion, in their letter No. 1943 dated 16th July, 1924, to the Government of India, that the existing system of providing an emergency supply of currency " is probably adequate for the purpose in view." They are still of this opinion, and they would deprecate proposals for making it too easy to expand the currency by these emergency measures. They do not therefore think that greater elasticity in meeting the seasonal demand is required. But they suggest that the existing system might be examined with the object of removing any defects that experience of its working may have brought to light. There is a possibility of the system being abused, and the Committee feel therefore that provision should be made to ensure that it is operated in the way intended. They think that the use of trade bills might be extended by the abrogation of stamp duty. Further, if Government were to set the example by insisting on suppliers drawing Bills on them for goods supplied, the practice of drawing Bills would be encouraged, and a great many Bills would thus become available for discounting with the Imperial Bank, who could, in turn, use them for currency requirements.

9. *Should any change be made in existing methods for the purchase of silver?*

It is the opinion of the Committee that the Government of India should be free to purchase silver in what they may deem to be the best market, or in exceptional circumstances, where secrecy is essential, in what they may consider to be the most suitable place.

APPENDIX 38.

Statement of evidence submitted by Mr. B. Chakravarti, Barrister-at-Law.

1. I think the time has come to have gold currency for India.

2. The ratio between gold and silver for purposes of Exchange depends mainly upon the whole quantity of exports and imports which have to be considered with reference to the average of a number of years, say, five years. At present the ratio is 1*s*. 6*d*. to the rupee. I am, however, inclined to think that the ratio for purposes of stabilisation should be fixed at 1*s*. 4*d*. for the rupee This will involve less grievance.

3. I think the maximum legal tender of silver should be fixed at Rs. 100*s*.

4. For paper currency I am inclined to think there ought to be the minimum of Rs. 5, that is, ⅓rd of a sovereign and ⅔rd's of a sovereign and a sovereign, and then the multiples of a sovereign.

5. The mints ought to be thrown open to the public for coinage of gold as sovereigns and that no restriction ought to be placed against such coinage.

6. The gold reserve against paper currency should be brought back to India from London.

7. In one sense a currency in a country must be considered as "State managed," but no artificial restraint ought to be adopted to affect the currency by any arbitrary method.

APPENDIX 39.

Statement submitted by the Indian Chamber of Commerce, Calcutta.

I.—Introductory.

The Commission by their terms of reference are directed to examine the present Indian currency and exchange system and practice and to consider whether any modifications are desirable therein in the interests of India. Broad and vital as the enquiry suggested is, the Committee of the Chamber are afraid that the memorandum issued by the Commission to the intending witnesses does not focus sufficient attention to this fundamental aspect of the enquiry. In one sense, the broader issues of the Indian currency and exchange problems have been entirely obscured in the memorandum and an enquiry invited on the presumption of *status quo* in all its essentials. The Committee of the Chamber, therefore, propose first to examine generally the Indian currency and exchange system and practice and to arrive at certain general conclusions thereabout, before they pass on to offer their views on the more specific and detailed questions raised by the Commission in their memorandum issued to the witnesses.

2. It is necessary in the beginning to pass in hasty review some of the salient facts with regard to the historical evolution of the Indian currency and exchange system! Prior to 1893 India had a silver standard, the mint being open to the free coinage of rupee, which was the standard currency. Its exchange value in terms of currencies of the gold-using countries depended on the ruling silver prices in the world market. A trying period of falling rupee exchange set about as early as 1875, which culminated in such a grave financial position by the year 1893 as to render it absolutely necessary to abandon silver standard. The precise measure taken was not the demonitisation of silver currency; on the other hand, it was still continued as the principal circulating medium, though not as a silver currency under a silver standard. Its free coinage was stopped with a view to its acquiring a definite gold exchange value—viz., 7·5334 grains of fine gold. It is to be carefully remembered that the definite gold value sought to be put on the rupee was decidedly higher than what was then justified by the position and outlook of the exchange market. In any case, for five years after the closing of the mint no fresh coinage of rupee was made until by the end of 1898, the rupee exchange reached the cherished figure of 7·5334 grains of fine gold, or, translated in terms of sterling, a rate of 1*s*. 4*d*. On the recommendations of the Fowler Committee further action was taken in placing India more definitely on gold

standard; by XXII of 1899. British sovereigns and half-sovereigns were declared legal tender in India at the rate of Rs. 15 and Rs. 7½ respectively, i.e., to say, precisely at the rate of the gold value which was sought to be put on the rupee ever since the closing of the mint in 1893. With the rupee exchange standing at 1*s.* 4*d.*, and a fair volume of gold having flowed into the currency reserve in exchange of rupees, it now remained, according to the calculation of the authorities, merely to open a gold mint in India, and to pass a fair volume of gold currency in active circulation in order to attain a full-pledged gold standard. The early months of the year 1900 mark the important turning point in the monetary history of India. Ill-timed as they were, the attempts to pass gold coin in active circulation met with a miserable failure, and re-acted on the currency situation by giving rise to an extraordinary demand for rupees. This single abortive experiment in introducing gold currency in circulation sealed the fate of a gold standard in India, though, as a matter of fact, it should have been construed as an encouraging lesson in the adoption of gold standard in India. From this point began a series of fortuitous measures which resulted in giving India by the year 1908 a widely different currency and exchange system than what was contemplated by the authorities in 1898. In place of a gold currency in active circulation and a free coinage of gold in this country, gold reserves were built up in London and India in order to maintain a stable gold exchange value of the rupee; in other words, by the beginning of this century India received a gold standard not in the sense that gold was a visible coin in circulation, or that it performed on its own strength its more important part in the adjustment of India's foreign trade, but in the sense that a stable potential gold exchange value of the silver rupee was realisable for international purposes.

II.—Case against the Present System.

3. It is not necessary to trace the history of Indian currency further down. The principal weakness of the system and connected practice will have been obvious from what has been already stated. Before the war and theoretically even to-day gold is the real standard of value, the currency medium which passes in circulation being a really token coin, or to put in a suggestive way, merely a silver note. For a Government to use its currency-issuing authority to pass into circulation as standard currency over-valued coins is open to gravest exception. The economics of a pure paper currency and a pure token currency system are ultimately identical, though their range of effects vary considerably. The difference, however, is one of degree, but both, in effect, mean the same, viz., a tax on people's currency. The gold standard reserve represents the accumulated proceeds of that tax and the fact that reserve has not been dissipated in meeting the ordinary revenue expenditure of the Government is hardly a palliative of the gravely exceptionable character of the Indian currency system.

4. There is also vital economic loss to the country resulting from the system. India has from year to year under normal conditions a favourable balance of trade. Like other countries, she has a right to be paid for this net surplus of commodities and services by a transfer of gold from other countries. Under the Indian system in vogue no actual transfer of specie takes place, but India is paid by her own token coins. It may be argued that as the "profits" of the coinage are set apart in a reserve no economic loss really results. But the fact that financing of export trade either by the exchange banks or the Government does not always entail a new coinage of rupee, the charge remains unanswered that for a part of her commodities and services in the international exchange, India is being deprived of her commensurate payment in specie. The extent of economic loss sustained by India in this respect is obviously large.

5. The Committee of the Chamber have hitherto examined the defects inherent in the Indian system—defects to which the Indian currency and exchange system would have been exposed even if the system as evolved were worked ideally. But the actual practice has laid the system open to still greater and graver criticisms. Herein lies another inherent defect of the gold exchange standard, as the Indian currency and exchange system has been designated. It depends on its successful operation, not on the automatic working of the system, as in a gold standard, but on the judicious operations of the controlling authorities. Leaving aside the short trying period of 1908, when the rupee exchange threatened to fall alarmingly low, the currency and exchange practice of the authorities does not give rise to much criticism until the war, assuming no doubt that gold exchange standard was the one system which they steadily

kept in view. Since January, 1917, when the rate of Council Bills was increased from 1*s.* 4*d.* to 1*s.* 4½*d.*, the currency and exchange operations of the authorities have degenerated into capricious attempts at expansion and contraction of circulating medium accompanied by a continual see-saw of exchange movements which knows no law nor any definite policy. The raising of the official rate of exchange by executive order since 1917, and the eventual placing of 2*s.* rate on the Statute Book, the sale of reverse councils and gold in the years 1919 and 1920, and the further manipulation of the Government since unfold the hidden dangers inherent in a gold exchange system, which worked at all, must be worked by the authorities. In fact, warnings against an official management of currency and exchange system were too numerous in this period to claim justification for its further continuance. It is amazing how the authorities charged with currency administration of India have worked to break the system. When the rate of the 1*s.* 4*d.* was departed from, it seems to have been scarcely realised by the authorities that the rupee was not the standard and measure of value in India. The real standard of value being gold, the token gold value of the rupee should not have been affected by any consideration, not even the rise in silver prices.

6. It would be worth while to pause here and examine the economic effects of the higher rupee exchange in comparison with the pre-war rate. Prior to the war the rupee was valued at 7·5334 grains of fine gold (i.e., 1*s.* 4*d.* gold). In dealing with. and talking of, and entering into obligations in terms of rupee in the pre-war period, people did so as if they were dealing with, talking of, and entering into obligations in terms of 7·5334 grains of fine gold. The defect in the system was that there was no regular supply of gold coins to indicate the same; but, as a matter of fact, sovereigns and half-sovereigns often passed into circulation as equivalent to Rs. 15 and Rs. 7½ respectively. But on account of the intermittent supply thereof contracts and obligations were expressed in terms not of sovereigns but rupees. Such expression, however, no less under the gold exchange standard system that prevailed, fixed or calculated the obligation in terms of gold, viz., 7·5334 grains of fine gold per rupee, than if it were expressed in terms of sovereign—in the same way that obligations in England in the pre-war period expressed in shillings would mean that each shilling indicated $\frac{1}{20}$ of 113 grains of fine gold. During the War, the paper pound in England left the pre-war parity with gold in the same way as the token rupee (whether printed on paper or silver) left it, the only difference being that in England there was depreciation and in India there was appreciation. Subsequently, however, while England strove towards attaining the pre-war parity between the paper pound (or shillings) and the gold sovereign, the Government of India manipulated the Indian currency in such a way as to reduce the number of rupees to be equivalent to the gold sovereign. One may imagine how the people of England would deal with a Government if large numbers of contracts had been expressed in shillings, and the Government had declared or so manipulated the currency that thenceforward one pound would be equivalent to 17*s.* 6*d.* and not 20s., that obligations expressed in shillings could be discharged only on payment of £1⅛ instead of £1. Strange enough, this is just what was done in India. Pre-war contracts valued at 113 grains of fine gold, which required payment of Rs. 15, still require the payment of the same number of rupees, but which are equivalent to about 130 grains of fine gold. In other words, all debtors have now to give 130 grains of fine gold to discharge their existing contracts instead of 113 grains for which they really contracted. Why should the debtors be placed under this burden? It is no answer to say that the contracts were not actually expressed in terms of gold, and that as under the present system the payment of the same number of rupees is necessary no injustice is done. But apart from operation of the law of supply and demand (which is extraneous to the present inquiry), to earn the same number of rupees the debtor has to part with 12½ per cent. more goods than he would have to do if the number of rupees equivalent to pound gold had not been artificially reduced. It should not be difficult to understand that the contracts in India, having been expressed in terms of rupees, the reduction of the number of rupees that go to make a pound operates as a great injustice to, and hardship upon, all debtors and all producers.

7. To return now to the Committee's point of contention—the actual operations of the Indian currency authorities in the recent years have had the most unsettling effects on the economic system of the country. The essence of the currency tragedy lay in the instability of the gold value of the rupee, or,

in other words, in the instability of the standard and measure of value. It is no doubt true that currency values have fluctuated rather violently in most countries after the war. But there is fundamental difference in the fluctuation of currency value under a free monetary standard and under a managed system —in the fluctuation of the currency medium, which is the standard of value, and one which is the token of value. In the latter case, a stable exchange value is a guaranteed pre-supposition to which it owes its whole existence. The Indian currency administrations in forgetting this simple economic fact have given this case away for a gold exchange standard in actual practice. The proposition has been firmly established that the scope for management leads to the mismanagement of the currency system.

8. It is somewhat interesting to speculate how far the currency muddle of the recent years was a deliberate one and to what extent it was due to a real lack of appreciation of the essentials of the system on the part of the authorities. At all events, such speculation throws into clear relief another inherent defect of the present Indian currency system, viz., its complicated character. That gold is really the standard of value, that rupee is really a token coin, intrinsically only $\frac{11}{16}$ worth of its currency value, that it is, in effect, a subsidiary coin, are hardly realised by the public. In the Indian currency system gold is only potentially present, and that also for restricted purposes. It is little surprising, therefore, that the public are not often alive to the fact that the Indian currency system rests ultimately on a gold basis. Economy in the use of precious metal as a circulating medium, however desirable in certain circumstances, should by no means be secured in such a manner as likely to mislead the public as to the true standard and measure of values. The poor rupee limps to and fro, in the mind of the public from silver to gold, in the mind of the exporters, importers and industrialists (who understand operation of exchange) from 1s. to 2s. 11d. in terms of sterling, and from about 5 to over 11 grains in terms of fine gold. The Indian currency system, if thrown in a clear perspective, would have probably banished half the misunderstanding about it, but it is the operations of the authorities which have made the task different and, as one is inclined to say, impossible.

III.—Demand for Gold Standard.

9. All the threads of arguments brought forward to the preceding paragraphs against the present system of Indian currency point to one and the same conclusion, viz., the absolute necessity for adoption of an effective gold standard. The illusion and obscurity which now surrounds the money standard shall in that case be removed; the working of the monetary system shall be placed beyond the reach of administering authorities to tamper with; the contraction and expansion of the circulating medium shall be strictly automatic and respond to the requirements of the community; India shall reap full benefit of her contribution of surplus exportable wealth in the world market; and, lastly, the public shall be immune from a drastic tax on their currency now paid against their will. The question has been asked whether time is now ripe for a solution of the currency and exchange problems of India by stabilisation of rupee or other measures. The Committee desire to point out that the question of time is not the relevant consideration in settling such vital problems as those of currency and exchange. The solution cannot be effected too early. The facts of Indian currency history lend piquancy to such a view. A decision to abandon silver standard was taken as early as 1893, and the adoption of a gold standard was definitely decided as early as 1899. Should the authorities have given effect to this decision Indian public would not have laboured under the currency nightmare they did in the recent years. Probably in asking the question the Commission has had in view some piecemeal reform of the Indian monetary system which would ensure a stable exchange value of the rupee, but the Committee of the Chamber would unhesitatingly record their view that such measures would result in merely tinkering reform of the currency and exchange system. So far as the system and practice are concerned, it is necessary to reform them radically. The adoption of a gold standard is a tender point in the Indian public sentiment ever since 1898, and, having regard to the confusion, prejudice and suspicion of the public as regards the Indian money standard, engendered by the working of the Indian currency and exchange system for the last 25 years, the sooner an effective gold standard is adopted the better it is. The urgency of such a step cannot, in the opinion of the Committee, be stressed too much.

11. The Committee of the Chamber, therefore, suggest that as early as possible a gold standard with gold currency be unreservedly introduced in India. Free flow of gold in and out of the country should be permitted. The mint should be opened to the public, who should enjoy the unrestricted right of importing gold in return for goods delivered or services rendered, and of using the same for currency purposes to the extent that the economic development of the community requires. No artificial check, as is possible under the gold exchange standard or any other managed system, should be permitted. Gold being the standard and measure of value, there should be an obligation to give gold in return for paper notes or silver rupees. It is certain that after convertibility has been maintained for some time the people will of their own accord adopt a habit the result of which will be to dispense with the actual use of gold for internal circulation. It would not, therefore, be a difficult matter to maintain convertibility of rupee eventually if it can be done in the initial stage of the adoption of gold standard. In fact, having regard to the large volume of rupee coins and notes that will always be in circulation, convertibility of rupee will have to be a permanent feature of the monetary system. As to the steps to effect the transition to the new system, it is proposed to return later.

IV.—Questionnaire Answered.

12. The Committee now proceed to deal with the various questions raised by the Commission in their memorandum. First of all, the question is asked as to what is the comparative importance of stability in internal prices and in foreign exchanges. Under a system of gold standard, this question does not arise at all. Under this system, the prices in India will be regulated according to the law of supply and demand and other factors in the same way as in other countries which have adopted the gold standard, e.g., England and America. The incompatibility between the stability of prices and the stability of exchange will disappear, inasmuch as the exchange will fluctuate only within specie points and volume of currency circulation will be determined by the requirements of the community, and not the exchange operations of the authorities. The Committee, however, yet offer some observations on this aspect of the currency problem as it arises under the present system. Stability in terms of internal prices would necessitate the management of our currency, the contraction and expansion of the volume of currency according as the index number of prices rises and falls. Several difficulties are bound to arise consequent thereon, and in practice there will be even more difficulties than in theory. Some of the difficulties may be stated to be as follows :—

(1) The fluctuations in the index number are ascertained only after they have taken place. Contraction and expansion of currency with a view to remove the fluctuations can only be done after such ascertainment. The effect of contraction and expansion on the prices can only take place after the lapse of some time. In the meantime, other factors may have operated to swing back the fluctuation that was being dealt with. The process of contraction and expansion would thus redouble the swinging back. Again, the opposite process will be rendered necessary to nullify the effects of the first operation or the effects of the first operation may not be sufficient, and it would have to be continued in a larger measure. All the time the process of contraction and expansion continue the exchange will be subject to artificially created fluctuations.

(2) It follows from the above that while on the one hand the object aimed at, viz., the stabilisation of prices will be difficult, if not impossible, to attain, afresh element of uncertainty and speculation is introduced not only in exchange, but also in forming an estimate of the trend of prices. The price level will be exposed to double set of influences, viz., forces operating in the rest of the world as also the Government manipulations of currency.

(3) Even if stabilisation in terms of index number could be attained the fluctuation in the prices of individual commodities could not be avoided. The index number is arrived at by taking into account a large number of commodities, some of which may tend to go up and some go down by the operation of the law of supply and demand. In the attempt to stabilise prices it will follow that the future trend of prices of any commodity will not only depend upon its own supply and demand, but also upon the supply and demand of all other commodities which go to make up the index number. This will necessarily affect future transactions in any com-

modity very difficult and risky, and an important factor which helps the movement of crops to the benefit of the agriculturists and the industrialists will be greatly disturbed.

(4) The act of manipulation will necessarily have to be left in the hands of some person or set of persons—and even assuming that he or they could be so circumspect, foresighted and infallible—knowing human nature, as it is, it would be too dangerous to vest such unbounded powers affecting 320 millions of people in a small body of men who, or some of whom, may not be able to resist the temptation of utilising the powers to their own advantage.

(5) The effect of manipulation will be not only to involve those commodities which enter to make up the index number, but also all other goods and services. This also bespeaks against such manipulation.

The theory of stabilisation of prices has been correctly described as being neither fool-proof nor knave-proof and has recently been rejected by England where Self-Government exists. To arm currency authorities with such powers will, besides the economic difficulties, be a fresh source for political suspicions in India. To adopt the theory here will be to commit a great economic and political blunder.

13. The question is next raised as to what are the effects of a rising and falling rupee on trade and industry including agriculture and on national finance. Under a gold standard as suggested by the Committee of the Chamber, this question also does not arise. It is only necessary to decide what the fixed value of the rupee should be. Two alternative rates of rupee, viz., one at 7·5334 grains of fine gold and the other at about 8·5 fine grains are now under discussion. The Committee are decidedly of opinion that it is the 1*s*. 4*d*. basis which underlie a very large number of existing contracts. Moreover, a low gold rupee value makes for an easier adoption of the gold standard than a higher gold value. The lower the rate, the lower will be the aggregate gold reserve required to maintain rupee convertibility both initially and eventually.

14. The Committee moreover favour 7·5334 rate of the rupee, as it is their view that the old legal rate was most unwarrantably tampered with, that the present high rate has been artificially screwed up and is not likely to steady at that rate and lastly they consider it has not been conducive to the economic prosperity of the community. The Committee now pass on to a detailed elaboration of these views. During the war if there had been a free supply of gold and silver at competitive rates, the Committee believe the ratio of rupee to gold (Re. 1 = 7·5334 grains of fine gold) would not have been disturbed. But the Government of India having treated the rupee as the standard coin—and not as a subsidiary coin as it has really been for a large number of years—the Indian currency system broke down. Firstly, the prohibition of gold imports and subsequently the placing on the statute book of the 2*s*. gold rate made it impossible for the public to tender gold to Government and obtain Indian currency. As a result that fruitful channel of automatic expansion of currency was closed to the public. The demand for rupees outstripped the supply and the natural consequence was a soaring of the rupees to abnormal heights, not only in terms of sterling but also in terms of gold. Government accentuated the position by adopting various methods of contraction of currency and by keeping the supply short of the natural demand therefor. At one time the artificial raising of exchange had its necessary reaction—imports increased, exports fell, and despite heavy sales of the Reverse Councils the rate of exchange came down to 1*s*. 3*d*. This was a good opportunity for Government to set the house in order and amend their past blunders but they abstained from doing so. On the other hand, Government continued their programme of contraction—at least of keeping the country starved of currency—with a view to push exchange to a high level. The present level of exchange suggests to the Committee as being rather precarious. They cannot ignore the fact that India has had four good monsoons successively. Even, therefore, leaving out of account Government manipulations, 1*s*. 6*d*. cannot be thought of as a natural ratio. It is impossible to regularly count on good monsoons. There is already a fear about the next crop. He must be a very bold person who recommends 1*s*. 6*d*. as a permanent rate. Apart from its unnaturalness, it is very injurious to the interests of the country. The Committee may illustrate it by pointing out that in spite of four good monsoons there is small demand for piecegoods. This is due to the facts that (1) the country has got much less price for her favourable balance of trade, (2) the producer has got much

less for his goods while his obligations had to be met on the old basis in terms of rupees, (3) the producer's margin of earning has got thinned and the buying power in the country is very much reduced. Moreover, gold and silver having artificially been made cheap in terms of rupees, the masses have been attracted to buy the precious metals instead of manufactured products. The artificial cheapness in terms of rupees is to a great extent responsible for the tendency now operating that people put their money in unproductive commodities like gold and silver and other articles of luxury imported from abroad. On account of the diminished purchasing power of the people, local industry and trade have suffered extensively and intensively, and unemployment has greatly increased. The Committee do not think that even Lancashire has really benefited by the high exchange to any great degree owing to the reduced purchasing power of the people and the tendency towards investment in the precious metals made cheap by the higher exchange. Government have after the recommendations of the Fiscal Commission pledged themselves to a policy of protection. There are few industries which have hitherto received a protective tariff from the Government, but the higher exchange has automatically given protection to all foreign producers against India and whatever protection the local industries obtained due to higher duties imposed during and after the war for revenue purposes has been neutralised or reduced by the higher exchange.

15. To discuss now the weight and fineness of the gold coin that should be adopted, the Committee cannot forget that it is not possible to begin on an absolutely clean slate. There is at present in circulation paper currency notes of the values of Rs. 5, Rs. 10, Rs. 100, Rs. 1,000, etc. It is desirable that any change that may be adopted should be of a nature that may easily fit in with the existing system of paper currency and help a clearer understanding of the currency position. The adoption of gold standard with gold currency would necessitate that our currency notes should be denoted in terms of gold—the real standard and measure of value—instead of denominating in rupees merely. At the same time, as all outstanding contracts and obligations are expressed in rupees, it is desirable that the fixed rupee value should also be clearly stated on the paper currency notes, so that the man in the street may clearly understand the position. All these purposes may be achieved by making the Indian gold coin, containing 75·334 grains of fine gold, of the weight of 90 grains; this may be called the mohur. The Committee strongly disfavour the coinage of mohurs of higher value than one mohur, as they will lend themselves to be easily hoarded. A coin different from the sovereign would not present any technical difficulty in the way of its being minted in India. The Committee are aware that there is a considerable opinion in favour of sovereigns being introduced in India. To such a proposal, they are not opposed in principle and their recommendations for coins valued at Rs. 10 is based only on the ground of convenience.

16. Apprehensions are often expressed that if gold coins are allowed to circulate in this country there will be a great scramble for gold in the world market, that commodity prices would fall and trade and industries in the world would suffer. The Committee cannot, in this connection, conceal their feelings of resentment that such a question should be raised in the case of India alone. India must have the right of her economic self-determination. If she sells to other countries more than she buys from them, she has a right to be paid the balance in the form of gold—the only medium of international payment—and she has a right to use that gold either for currency purposes or for art as she chooses. If it is intended to prevent the flow of gold to India, which is due to her, it is open to other countries to attract Indian capital abroad by offering tempting rates of investment. Moreover, a computation of the world production of gold in the past 50 years shows that India has, in fact, taken much less than ⅕th of the same, though by reason of the proportion which Indian population bears to that of the world, she is entitled thereto. But apart from this, there is no ground for apprehension that the adoption of the gold standard by India will mean any alarming depletion of the gold stocks of the world. Firstly, the circulation of gold coins will not increase the quantity of gold annually imported or would otherwise be imported into India. The quantity of gold import is necessarily limited by the balance of trade in merchandise and by Government's requirements for home remittances. It is only the remainder that can be imported in the form of gold. If in any year a larger quantity of gold is by chance imported, it must be made up in the subsequent period either by actual import or by less import. Secondly, the circulation of gold coins or the right vested in the people to use the same for their circulating medium or to obtain gold whenever they want in exchange for other currency—would create more confidence in the currency of the

country and induce the public to use paper currency notes and the subsidiary rupees as the circulating medium without any heavy demand for gold coins. Thirdly, the use of gold bullion will be substituted to a large extent by that of gold coins and this will operate considerably to the benefit not only of India but of the world at large. At present, those who desire to invest their savings in gold have no other alternative than to resort to bullion and convert it into ornaments. If gold coins are in circulation, the tendency would be more and more to invest the savings in gold coins instead of jewellery, as the former will be easily—without difficulty, without any loss of prestige, without having to overcome the unwillingness on the part of women to part with their jewellery—available for all kinds of uses. As the habit of investing savings in gold coins increases, the progress to investment in productive channels will be easy, sure and quick. It naturally follows that gold will be used for productive purposes and will ultimately be replaced by paper currency notes, etc. It is difficult to understand what argument can justly be advanced against the adoption of gold currency in India. If it be said that the Genoa Conference preferred a form of gold exchange standard to gold standard, it was because deflation was considered too risky for most countries. In any case, the Committee's views in this connection are :—

(1) that India has had painful experience of the former and needs the régime of a pure currency system in which there can be no possibility of a loophole for manipulation by Government;

(2) that when several countries come together including England, United States, etc., to confer about the adoption of the gold exchange standard by them all, India also may be invited to the conference as a separate unit to take part in their deliberations, and with the experience of a pure currency system obtained in the meantime, will be able to give the benefit of her advice and to adopt such joint action for the benefit of the world as may then appear feasible; but until that time arrives, there can be no justification in depriving this country merely because of her political weakness from adopting a sound system of currency.

17. The Committee next turn to the question of the composition, size, location, and employment of the reserves, including the paper currency reserve and the gold standard reserve. The paper currency reserve on the 22nd November, 1925, stood as follows :—

In India.	*Rs.*
Silver coin	81,10,47,104
Gold coin and bullion	22,31,74,903
Silver bullion under coinage	7,13,69,517
Securities (Purchase Price).	*Rs.*
In India	57,11,14,946
In England	22,99,65,167
Total	1,90,66,71,637

Rearranging the above according to silver and gold, the position appears to be as follows :—

Silver.	*Gold.*	*Securities in India.*
81,10,47,104	22,31,74,903	57,11,14,946
7,13,69,517	22,99,65,167	—
88,24,16,621	45,31,40,070	57,11,14,946

That is to say there are :—

	Crores. of rupees.
Silver	88¼
Gold	45½
Indian Securities	57

The Committee are aware that the gold position of the securities has been valued at Rs. 10 per £. Valuing it at Rs. 15 per £, and cancelling Indian securities to the extent of the increase in value, the following figures are obtained :—

	Crores.
Silver	88¼
Gold	67¾
Securities	34½

These figures indicate sufficient gold reserves as a backing against the rupee circulation under a system of gold standard. But the Committee would recommend further augmentation of gold reserves, if possible. On the adoption of gold standard with a gold currency the last semblance of any valid reason for maintaining any portion of the Indian reserves in London disappears. Under the gold exchange standard system, the argument was put forward that to meet even the remote contingency of having to draw Reverse Councils, it was desirable to maintain a reserve in London, either in gold or in foreign currency. But, under the gold standard system, such a contingency can be met by the actual export of gold. The Committee may repeat here, that as the balance of trade is seldom against India, there can be no justification for keeping any portion of our reserves outside India. The requirements of the Secretary of State should be met either by selling Council Bills in London or by purchasing Trade Bills in this country according as the occasion therefor arises, and for that purpose there is no necessity of keeping any Indian reserves in London. Any extreme case of necessity may be made by short-term borrowing in England, as is resorted to by the merchants.

18. The Committee now turn to the question as to whether the note-issuing powers should be transferred to the Imperial Bank of India. They consider that this should be done and the Bank should be made to carry out this function through a separate issue department. As regards the backing of the note issue, the first thing to be done is to set the house in order as detailed above by converting the available resources into gold to be kept in India. That being done, or a proper estimate thereof being formed, a provision should be made that at no time should the gold portion of the reserve fall below 50 to 60 per cent. of the total issue. It is unlikely that so much gold will be required at ordinary times; still the metallic backing should be sufficiently strong to meet ordinary emergency so that the confidence of the people may not be shaken on the one hand, and the possibility of the failure of the monsoon for two or three successive years may be made without difficulty. Any extraordinary emergency such as arose during the last European war may have to be dealt with in an extraordinary manner when the situation actually presents itself. The facilities for the encashment of notes seem to be fairly good at present and a suitable arrangement may be made between Government and the Bank for a proper development and evolution of the system.

19. The remittance operations of the Government of India may be managed by the Imperial Bank but they should not be confounded or complicated with the currency system, as was unfortunately done by Government. Remittance operations should be confined to actual requirements, due advantage being taken of slack seasons, favourable ready or forward rates, etc. By so doing, trade will also be materially helped.

20. The eighth question of the Commission's memorandum relates to the seasonal demands of currency. Such demand lasts usually from November to February. By allowing free flow of gold, and the use of gold as currency, the Committee think that a good portion of the demand can be met by the banks by the import and export of gold. The expenses involved in the actual import and export may be saved by the Imperial Bank buying trade bills in the beginning of the season and selling them at the end, and issuing currency against them. They, however, fear that the Imperial Bank may repeat the mistakes of Government: but if suitable checks can be provided to prevent wrongful manipulation, the operation may be permitted. The Committee suggest a careful investigation into the matter by the authorities and the results being placed before the public for criticism. But an issue against foreign trade bills may be inadequate, and there may be still a necessity for issuing currency against internal bills of exchange. This should be permitted at an early stage to avoid undue scarcity being felt and not after the scarcity has operated to the hardship of the public. The scarcity which is felt just when the crops are marketed by the cultivators, tends to lower the prices of the produce, thus affecting the agricultural producers who constitute at least 75 per cent. of the population. The Imperial Bank should be required to pay a royalty calculated at the rate of 5 per cent. per annum on such issue. There is a complaint that Indians did not in the past get sufficient benefit from the issue of emergency currency. Proper care should, in the opinion of the Committee, be taken to see that no room is left for such complaint. The Committee desire also to mention here that the necessity that sometimes arises by failures of and " rush " on banks. On such occasions it is not

only the affected bank that suffers but other banks also get involved and people who have borrowed on short terms or on overdraft accounts are also great sufferers. Provision should be made to meet such emergency, though the rate of interest to be charged on loans to meet such a situation may be made as high as 7 to 8 per cent. per annum. Such a provision would materially help the development of an Indian banking system the absence of which is a fundamental weakness of the Indian economic system.

V.—Transition.

21. In the foregoing paragraphs an attempt has been made to answer only those of the questions raised in the Commission's memorandum which arise under a gold standard. Such questions as, for instance, the method of silver purchase which do not arise under a gold standard or are only of trivial importance thereunder have not been sought to be answered. The views again with regard to some other questions, though not specifically recorded, have been suggested in various places of this written statement. It now remains for the Committee to formulate definite proposals with regard to the transition to the new system. The first step necessary to attain this object is no doubt the working of the exchange back to 1*s*. 4*d*. level, for it will be realised that so long as the market rate of exchange rules at anything higher than this, the export of Indian produce will heavily suffer if the Mint is meanwhile opened at the rate of 7·5334 grains of fine gold per rupee. It is completely within the powers of the Government to reach back the 1*s*. 4*d*. figure. All that would be necessary is a further process of expansion. The new issue of rupee suggested under the proposal should be only against the delivery of gold, the Government refusing to buy trade bills meanwhile. In other words, the suggestion is in effect that Government should buy gold at competitive rates against issue of Indian currency. The inevitable result will follow; the currency will expand, and exchange will sink back to 1*s*. 4*d*. It is estimated that a further issue of 25 crores of rupees will be effective to bring about the desired effect.

22. At this stage, it would be the duty of the Government to open the mint to the free coinage of gold mohurs and *parri passu* to issue and renew paper currency in terms of mohur as already suggested. The Committee, however, realise that no system of gold standard shall be complete so long as the crowning measure is not taken—namely, the convertibility of rupee in gold is unreservedly declared. Though fully alive to the importance of such a measure, it is the view of the Chamber that such conversion facilities should not be deferred till the Government are in a position to declare convertibility of the rupee without reservation. There is at present, as pointed out in an earlier paragraph, no less than 33 crores of rupee worth of gold. Added to this the new addition of 25 crores consequent on the exchange operations as indicated in the previous paragraph, the Government shall have a total gold bullion reserve of 58 crores of rupee by the time they open the Mint to free coinage. The Committee are emphatically of opinion that this gold backing by itself would be sufficient to start India on an effective gold standard, at any rate, to maintain convertibility of rupee circulation to a very large extent. It is, therefore, the suggestion of the Chamber that while Government should have the option of converting the rupee and notes either in gold or in silver, the option of giving silver should not be exercised until forced by a rapid depletion of gold reserve.

23. The question is still worth an examination as to whether with gold backing the Government shall be justified to declare an unreserved convertibility of rupee. The Committee do not consider that the drain on gold even in the initial stage shall be very heavy. Scattered, as Indian villages are, remote from the nearest treasuries, it is a sheer alarmist view to take, that there will be a very heavy drain on gold. At the worst calculation, a gold backing of 100 crores should be sufficient to enable Government to declare convertibility without any reservation, though so far as the Committee are concerned they would regard this figure as greatly over-stated. What should the public really demand gold for in exchange for rupees? India being a poor country, it is the rupee which will have to continue as a currency medium among a very large section of the population and the wealthy classes in the large city, who have their money banked up, are not likely to run on the currency for conversion of rupee to any unusual extent. In any case, should the Commission still be of the view that the reserve of 100 crores of rupees in gold is the irreducible minimum to enable Government to declare unreserved convertibility, the Committee would suggest the immediate

transfer of the entire sterling securities in the paper currency reserve now in London. A transfer of £22 millions of sterling securities in gold to India would mean an addition to the gold reserve of 33 crores of rupees, thus bringing the total reserve to 91 crores, including the 58 crores already accounted for. It is difficult therefore, to imagine why India should not have an effective gold standard from the very beginning, even leaving out of account her gold resources in the gold standard reserve. After the convertibility has been declared, rupee may be made a legal tender within a limit of Rs. 1,000. Pending such step, however, it will be necessary to treat rupee as an unlimited legal tender.

24. It is painful for the Committee to observe that an endeavour should now be made, evidently from interested quarters, to establish that India requires an appalling amount of gold for adoption of an effective gold standard. In the "Capital" of the issue of the 10th instant a scheme of gold standard is referred to according to which India will have to seek an American loan of 300 crores of rupees in order to attain her cherished object. Preposterous as the proposition is, the Committee feel it as an outrage on the Indian nationalist sentiment to ask it to submit to a foreign loan, India having a heavy favourable balance of trade from year to year. It is the height of irony that after denying India for years her legitimate share of the world's gold resources, she should be asked to borrow gold from abroad when at last she refuses to forego her share of the gold any more. To estimate India's requirement of gold reserve at 300 crores against a total circulation of 450 or 500 crores of rupees is not only to display crass ignorance of the economic science but to throw oneself in absolute ridicule.

25. In conclusion the Committee would invite, where necessary, references to Mr. D. P. Khaitan's brochure, "Indian Currency Problem, 1925," for many of the facts and materials underlying the views of the Committee expressed in this memorandum.

APPENDIX 40.

Statement of evidence submitted by Mr. A. Ramaiya, M.A., Vakil, Madura.

1. The main features of the existing currency and exchange system and practice of this country may be briefly stated as follows :—

(i) The country has what may be called a rupee standard, which is linked neither to gold nor to silver, and under which the unit of currency the rupee is unlimited legal tender within the country. The currency consists of two parts, silver coins and paper notes, the latter being issued against reserves of gold bullion and securities. The silver rupees contain a smaller silver content than what they are capable of purchasing, and are absolutely inconvertible either into gold or silver, and the paper notes are also not convertible except into rupees. From the point of view of international exchange, there is no difference between the silver rupees and the paper notes, the one being notes printed on silver and the other notes printed on paper. And for purposes of remittance abroad the value of both at any particular time depends largely on their purchasing power parity with the currency units of other countries. Having no fixed value in relation to gold or silver, the rupee (silver as well as paper) has no utility power outside the country. Its value depends purely on the relation between the supply of and demand for it on the one hand, and the supply of and demand for commodities on the other. Of course, there was an officially fixed rate of 1*s*. 4*d*. the rupee before the War, and there has been an officially fixed rate of 2*s*. the rupee since 1920. But the former could be maintained only during times of favourable balances of trade, and the latter, being a hasty revision of the ratio at a time when world conditions had not become sufficiently settled has never succeeded so far; with the result that at the present time the rate of exchange depends purely on the purchasing power parity of the rupee with the currency units of other countries, controlled to some extent by the policy of Government with regard to its own remittances abroad and the volume of currency which it chooses to keep in internal circulation from time to time.

(ii) There is no provision of any legally recognised or guaranteed apparatus for adjusting the country's international exchanges without impairing the progress of her trade, especially during times of unfavourable balances. Though out of the profits of the rupee coinage the Government has been maintaining what it calls a gold standard reserve, ostensibly for the purpose of helping trade

adjustments, yet the Government has always proclaimed and acted on the principle that there is no historical or legal obligation to use the reserve for other than the Government's own remittance transactions. The result is that the trade interests of the country are largely left to be governed by the play of international economic forces under which the rate of exchange is tossed up and down until it assumes a position of equilibrium where the balance of payments equalises itself by such means as the export of securities, raising loans in the creditor country or countries, and so forth It is true that the Government is helping a good deal by means of its council drafts and reverse councils, and its control over the volume of currency in internal circulation, to steady the exchange rate and provide facilities for trade remittances. But its help comes in only at times when without such help trade can get on, that is, during periods of favourable balances. The country has generally favourable balances of trade, its exports exceeding imports. But in years of famine, when exports shrink, there is no adequate apparatus for meeting international obligations. The gold standard reserve of the Government is applauded as having been useful for the country in the pre-War period. But the country had had generally favourable balances during that period except in 1907 and 1908, when exports diminished on account of agricultural depression in the country. And it is exactly during this period, when the trade of the country required Government's help that the help could not be efficiently offered, with the result that the pre-War standard of exchange of 1*s*. 4*d*. could not be maintained during that time. Again, during and after the War, the Government has also miserably failed to maintain the exchange with the help of its gold standard reserve. The system itself collapsed when silver prices ran too high to make it profitable for Government to issue further coinage, with the result that the mainspring of the reserve broke down hopelessly. No amount of manipulation on the part of the Secretary of State, nor the change of control of the exchange policy from him to the Government of India, and the latter's efforts and devices to manage it, could save the situation. Then the adoption by Government, in spite of the protests of the Indian commercial community, of the 2*s*. rate recommended by the Babington-Smith Committee, and which was intended to secure stability of exchange, led to the most violent fluctuations ever experienced in the history of this country's foreign exchanges, and subjected the country to all its attendant evils, besides causing a loss of more than 50 crores of rupees to the Government in its futile efforts to maintain the exchange by sale of reverse Councils. The reason for this failure is to be traced not merely to any defects in the reserve maintained by the Government, but to the exchange and currency system as a whole, which requires to be radically reformed.

(iii) The Indian currency is an essentially "managed" currency, the volume of money in circulation in the country being entirely left to the management of the Government which, on account of its peculiar position of having to make large remittances abroad, its large silver purchases for rupee coinage, and its power to raise large foreign loans, has the capacity to control and determine to an appreciable extent both the internal and external purchasing power of the rupee. The supply of internal currency is now arbitrarily regulated by the Government without any such automatic control as is exercised in the case of the pound sterling or the dollar. The people of the country, being governed by an alien Power, view with suspicion this power of the Government to manipulate the currency in any way it chooses, and consider that the currency policy of the Government is directed more in the interests of Great Britain than of India. Whether this suspicion is well-grounded or not, yet having regard to the relation between the Government and the people, it is eminently desirable that the Indian currency system should as far as possible be made an automatic one. Even in England, where democracy is so highly developed as to conduce to an identity of interest between Government and people, the people have viewed with suspicion and rejected the proposals for a "managed" currency, and preferred the return to a more or less automatic gold standard. It may be that there is a good deal to be said in favour of a "managed" currency—a managed currency, not like the one in India, which is arbitrarily regulated, but one which will be managed on a scientific method. And monetary theorists may be right in maintaining that the ideal system of currency must necessarily be a "managed" one, under which the price level of commodities in general (instead of gold or any other precious metal) is taken as the regulating principle of the currency in all countries. But the time is certainly not ripe now for that. And neither the economic condition of the world nor human capacity for financial management

has attained the stage of fitness sufficient enough to be entrusted with such a responsible task. So far as India is concerned, the position is still worse, having regard to the political relation between the Government and the people. As Sir James Wilson has recently expressed, the currency policy of the Indian Government shows beyond all doubt "the danger of entrusting the management of a currency to any body of men, however capable, honest, and impartial, without some automatic check, which would prevent even a partisan or doctrinaire Government from manipulating the currency in the interest of particular classes, and thus possibly inflicting great injury, especially on the poorest of the population. The people of India will be safer with a currency based on gold, although the commodity value of gold is liable to fluctuate, than with one dependent on the varying opinions of any body of men."

2. If the chief utility of money is its capacity to serve as a reliable measure of value, then two things are necessary for the successful working of the currency system of the country: One is that the value of its monetary standard should remain stable inside the country and maintain stability of internal prices. The other is that its international exchange value should also be stable. Internal and external stability are both important. In India the former has not been seriously cared for or sought to be maintained at any time. And only external stability has been attempted to be maintained by elaborate manipulations on the part of the Government. The importance, however, of maintaining a stable level of internal prices cannot be over-emphasised. It is unnecessary to enumerate here the consequences to a country of changes in the value of money and the instability caused by rising or falling prices. These have been discussed in great detail by Mr. J. M. Keynes in his brilliant "Tract on Monetary Reform." Instability of prices causes fluctuations in trade and industry, leading at one stage to speculation and easy gains, and at another to business risks and anxiety, bankruptcy, loss, unemployment, and social friction. Fluctuations, both of high and rising prices and low and falling prices, are evils to be avoided, and are injurious in their consequences to individuals and classes, the former set being, however, considered less injurious than the latter. Whatever that may be, it is undeniable that both are evils to be shunned, and that the maintenance of a stable level of internal prices in all countries—stable not in a static but dynamic sense is greatly beneficial to human progress and welfare, inasmuch as it guarantees certainty and confidence in our economic relations.

3. So far as external stability is concerned, this is equally essential for the progress of a country's trade with the outside world. The importance of this is very great in the case of countries which have large foreign trade and extensive financial interests or obligations outside themselves. So far as India is concerned, not only does she have foreign trade of huge dimensions, but she has to make large payments annually abroad. The Home Charges of the Government, and the interest payable on sterling loans, and profits of foreign capital invested in the country all amount to a good deal. Not having capital enough for her industrial development the country has to import a large capital from abroad, and this means a permanent addition to the annual remittances. Except on the basis of a stable exchange the Government cannot balance its budget here. Without it, budget-making is reduced to mere speculation. The Finance Member will have only to adopt what may be called a budget rate of exchange in order to calculate the probable gain or loss through exchange for the coming year, unless the rate of exchange has been fixed. If the average market rate for the year should deviate widely from his estimated budget rate he may be surprised at the end of the year either with an unexpected large surplus or an unexpected large deficit, as the case may be. So long as the Government requires to make large foreign payments this uncertainty must remain unless exchange is steady. In this country, on account of the large foreign remittances that the Government has annually to make abroad, a balanced budget will be impossible without stability of exchange. Further, such stability to the extent to which it influences the internal prices of those goods which enter into international trade has also a sympathetic influence on the stability of internal prices. "By stimulating or restraining exports and by determining the prices which must be paid for imports the exchange rate has a considerable influence on home prices." (Mr. J. R. Bellerby, in the "Economic Journal, 1925," page 272.) Stability of exchange is not, as Mr. Keynes would seem to think, a mere "convenience which adds to the efficiency and prosperity of those who are engaged in foreign trade." ("Tract on Monetary Reform," page 155.) Instability of exchange results in a worsening of the trade of a

country through the want of confidence it creates on account of the uncertainties and risks involved. As the Finance Member put it: "Exchange fluctuations introduce into business an additional and extraneous risk which leads almost inevitably to a diminution in the volume of trade; even when they are of moderate extent (they) have a deeply disturbing effect. In business the breath of life is confidence. And what is required for confidence is certainty. In this matter of exchange nothing short of certainty is of any use." (Address to the Associated Chambers of Commerce, Bombay, 4th December, 1923.) From the point of view of the nation as a whole, a high or rising exchange has a more injurious consequence for her industries and trade than a low or falling exchange. Further, it enables foreigners to carry away unperceived the resources of the country by paying a lower price in terms of the country's internal currency. So far as India is concerned, the high exchange has been disadvantageous to the "unsheltered" industries of the country by keeping "unsheltered" prices low. But it has been of advantage to Government in enabling her remittances abroad to be made on advantageous terms and in keeping her internal rupee expenditure from increasing. And it has also lightened the burden on those who have had to make fixed money payments abroad. As Mr. F. H. Lucas, of the India Office, observed, it has also probably saved the country from the worst effects of credit inflation resulting from the methods of war finance followed in France, Germany, Russia, and Great Britain, and enabled her to avoid assuming a greater share of the burden of the War than she has done. But its effect, though temporary, has been to stimulate imports and serve as a bounty on them, while discouraging and checking exports. Again, those foreigners who have invested capital in Indian industries not on fixed money rates of interest payable in terms of sterling or other foreign currency, as in the case of the sterling loans of Government, but for rupee profits, have been gaining a good deal by conversion of their rupee profits into sterling on account of the high exchange rates that have prevailed. The agricultural producers of the country have also suffered on account of the tendency of the high exchange to discourage the exports of their agricultural produce by getting them lower rupee values. But their suffering has not been a loss to the country as a whole, as the poorer classes, including the millions of agricultural labourers, are beneficially interested in the checking of the export of the country's food products, and thus cheapening the same within the country.

4. It is true that every variation in the exchanges has only a temporary and transitory effect, and ultimately leads to readjustment by setting the necessary forces in motion. But these are only tendencies. The purchasing power parity never gets restored to its original position of equilibrium. Meanwhile, however, a good deal of mischief is done. In this country Government comes into play. By its policy of reverse councils it has prevented the fall of exchange to the extent it otherwise would, and has maintained for its own advantage the rate of exchange at 1*s.* 6*d.* But for Government manipulation the rate would almost certainly have fallen to 1*s.* 5*d.*, or even lower.

5. In view of the suggestion I propose to make below it is, however, unnecessary to discuss about the exchange value of the rupee any further. It is sufficient to mention that stability of exchange or facilities for automatic adjustment of it will be greatly beneficial to any country that has a fair extent of international trade.

6. So far as our own country is concerned, the position is that the rupee standard has so far failed to achieve external stability, and with regard to internal stability nobody ever cared to trouble himself about it until now. The manipulations and tricks of the Government for restoring external stability have also been so far unsuccessful, not because they were in themselves wrong or misplaced—a good many people in the country think that the Government were motived by other than Indian considerations, and therefore failed—but because the standard of value, the rupee, which the Government has persisted in maintaining, is fundamentally defective. Unless the standard itself is changed healthy reform is not possible of achievement. All the actions of the Government have been at best mere palliatives and not cures of the ills. The fundamental defect of the system is that the currency unit, the rupee, is entirely unsexed, being linked neither to gold nor to silver. That is to say, India has now neither a gold rupee nor a silver rupee. It has only an inconvertible currency, consisting of notes printed on silver and notes printed on paper (each, however, convertible into the other), and the value of the unit being appreciably determined by the policy of Government, not with reference to any principle of automatic regulation, but at its own will and pleasure, and to suit what it considers or imagines to be financially necessary.

Whatever may be the motive of Government in its present policy—I for one am unwilling to suspect it in the least—it must be admitted that Government is as likely as any other human agency to go wrong. If we examine its currency policy during the past five or six years we cannot shut our eyes to the hard fact that it went hopelessly wrong from beginning to end—in the fixing of the 2*s*. rate, in its ruinous policy of selling reverse councils, in its deflating the internal currency by bringing about a diminution in the volume in active circulation, and actively preventing the return of the purchasing power parity of the rupee to its natural point under steadying world conditions. The existing currency policy of the Government is really lamentable. The system has no elasticity or principle. It is regulated neither with reference to the condition of trade balances nor with reference to the general level of internal prices. Both the gold exchange standard reserve, which was sought to be maintained out of the profits derived from the issue of silver rupees, and the paper currency reserve, which is held against the issue of notes, have no relation whatever to the extent of the possible international obligations which the country might at any time be called on to discharge on account of her foreign trade, except that to alleviate seasonal demands, paper notes to the extent of 5 crores of rupees are authorised to be issued against short-term bills by Section 20 of the Paper Currency Act of 1923. The result is that we have in this country an utterly unscientific currency system, inelastic in its operation and inadequate for its purposes.

7. The remedy for the currency ills of the country is to be found not in a mere change of policy with regard to the issue of currency for internal circulation or the regulation of its external exchange value, but in bringing about a radical change in the standard of value itself, and helping the way to the establishment of an automatic system of currency. I do not mean to say that an automatic system is the ideal system to be aimed at for all time to come, but that it is the safest under present world conditions. The goal towards which the whole civilised world has been moving is a more or less automatic gold standard. The Finance Member, in his address to the Associated Chambers of Commerce, Bombay (already referred to), recognised and endorsed this fact. The resolution of the Genoa Conference was emphatically in favour of the "adoption of a gold standard by all countries that can, all the countries that hope to have sound currency at all." Even Mr. Keynes, the most ardent advocate of a scientific system of "managed" currency, wrote in the *Manchester Guardian* Reconstruction Number of 20th April 1922, that he could find "no other solution of stabilisation (international exchange stabilisation that is) except the traditional solution, namely, the gold standard in as many countries as possible."

8. The time is also now ripe and opportune for the adoption of the gold standard in India at the present moment. World conditions, including those of India, have now passed the chaotic stage of wild exchange fluctuations and become fairly steadied. The country with and through which India has been mainly dealing in her international trade, namely, England has now solved the problem of her currency by passing the Gold Standard Act, and restoring sterling to gold parity. So that the problem as to whether we should stabilise our currency with sterling or with gold has now disappeared. It is always safe and good for this country to move with the country with which she is mostly to transact all her foreign exchanges. Further, the two other main countries with which India has to deal, viz., U.S.A. and Japan, are also having a gold standard. The simplest and safest method, therefore, of solving the problem of Indian currency and exchange is through the adoption of a gold standard in this country also. Such a solution is greatly facilitated by the circumstance that the commodity price of gold is now far lower than what it was in pre-war times, so that the establishment of an adequate gold reserve for our currency purposes is now easily achievable. It will be seen that the cheapness of gold has greatly facilitated England's return to a gold standard, easily and quickly. When the whole world, at any rate, that portion of it which counts, is in favour of a gold standard, and has recognised it as the most stable medium for international payments; to adopt or stick to any other standard will be a solitary eccentricity. It is always safe to move in the generally recognised path, and adopt what the general world has considered to be the best and most reliable standard of value. So far as this country is concerned, the gold standard is eminently desirable for the following additional reasons.

(i) In the first place, it provides for the automatic, at any rate, a principled, expansion or contraction of the currency, and enables the volume in circulation to adjust itself to trade requirements. It helps a great deal to do without a purely

"managed" system, which requires expert knowledge and skill on the part of financiers who are too wanting in that commodity, not only here, but in all parts of the world, to be safely entrusted with the task. And more than that, it will remove here and now the lurking suspicion entertained against the Government that they are managing and directing the current policy of the country more in the interests of Great Britain than of India. Whether this suspicion has any basis or not, it is very desirable that the Government should try to keep itself above such reproach. Within the last four or five years the currency and exchange policy of the Government, including the sale of gold from its gold standard reserve—even though it is quite certain that Government acted with the best of motives—has lent support to the suspicion. Under these circumstances the aim of reform in this country, at any rate, for the immediate future, must be the establishment of a more or less automatic gold standard, leaving little scope for Government manipulation in an arbitrary fashion.

(ii) The difficulties regarding the rate of exchange with the other gold standard countries, under which we have been labouring under the present system, will automatically disappear with the adoption of a gold standard. During past years, the eccentric Rupee Standard, inconvertible within the country and unacceptable for international payments, has been the main cause of our exchange troubles; and the sham and spurious gold exchange standard of the Government regulated not with reference to the volume of the country's international trade indebtedness, but built up on an inadequate and unprincipled reserve maintained out of the fluctuating profits of its rupee coinage, failed miserably when silver prices ran high. The currency and exchange troubles of India in the past have been due, not to world causes, but to governmental infliction. The only escape from such infliction is the adoption of a gold standard which, whatever its defects, will certainly solve the exchange difficulties of the country, by providing automatic correctives by means of gold payments, for variations in the net balance of our international indebtedness. By its free flow, gold will be in a position to maintain such a distribution of itself as to preserve everywhere a fairly uniform level of prices in terms of gold (making due allowance for transport charges, etc.) and keep the exchange rates stable within the narrow limits of the gold points. The capacity of a gold standard to give complete stability of exchange will be evident from the following passage: "If both currencies in question (internal and external) are stabilised in relation to gold, all individual valuations take a simple form. The reason is that gold can be used for paying debts, for buying commodities, and for investing capital in any part of the world. It has an international value-in-use. Any demander, therefore, who is buying foreign money redeemable against gold will be able to confine himself to a calculation of its ratio to the value of gold. In this simplification of the valuations will be found the chief argument for an international system of gold standards." (Economic Journal, 1925, page 231.) Of course, it may be stated that this method of adjusting international obligations by the flow of gold from one country to another and thus restoring the equilibrium of price levels is essentially a pre-war method which on account of its slowness of working would not be capable of dealing with such large and sudden divergencies between the price levels of different countries, as have occurred recently. It must be admitted that the process of restoring exchange equilibrium through gold movements takes a longish time to work itself out as will be evident from the following passage in Mr. Keynes's book (A Tract on Monetary Reform, pages 159 and 160) where its working under the pre-war regime is thus described :—"If gold flowed out of the country's central reserves, this modified discount policy and the creation of credit, thus affecting the demand for, and hence the price of, the class of goods most sensitive to the ease of credit, and gradually, through the price of these goods spreading its influence to the prices of goods generally, including those which enter into international trade, until at the new level of prices foreign goods began to look clear at home and domestic goods cheap abroad, and the adverse balance was redressed." As this method of operation would take months to bring about a state of equilibrium in the balance of international payments, and as, under the post-war regime fluctuations have been sudden and violent it is argued that the employment of gold may not help us much in quickly adjusting our international accounts under present conditions. But then world conditions have now become stabilised enough through the return of a good many countries to the gold standard, for us not to expect any more such rapid and violent fluctuations in the exchanges requiring a quick reaction for the maintenance of equilibrium as were experienced before. Further,, under the post-war regime when gold was not available for use, a system has developed of necessity, under

which international obligations are almost wholly adjusted by simple changes of titles to money, and with little gold movements. As the Right Honourable R. McKenna pointed out in his presidential speech at the general meeting of the Midland Bank, Ltd., on 21st May, 1924: "People often talk of money going abroad or of foreign money coming here, but as a fact when gold is not in use, money is incapable of migration. The title to money may change. An individual may sell his sterling to an American for dollars but the American will then own the sterling in England and the Englishman the dollars in the United States. If there is pressure to sell sterling, the exchange value of the pound will be lowered, and temporarily the burden of British payments in America will be increased. But the change of ownership does not remove the money which necessarily remains and can only be expended where it was created. No exchange transaction, no purchase or sale of securities, no import of foreign goods or export of our own, can take money out of the country or bring it here." This passage does not, however, explain the rapid and powerful manner in which the post-war method has been shown to work, by Mr. Keynes, in his book already referred to (pages 160-161). This is what Mr. Keynes says: "If at the existing rate of exchange the amount of sterling offered in the exchange market during the course of the morning exceeds the amount of dollars offered, there is no gold available for export at a fixed price to bridge the gulf. Consequently the dollar rate of exchange must move until at the new rate the offerings of each of the two currencies in exchange for one another exactly balance in amount. But it is the inevitable result of this that within half an hour the relative prices of commodities entering into English-American trade, such as cotton and electrolytic copper, have adjusted themselves accordingly. Unless the American prices move to meet them half way, the English prices immediately rise correspondent to the movement of the exchange." This system of rapidly adjusting international payments and restoring equilibrium is sure, on account of its obvious convenience, to develop fuller in the near future even though the gold standard might have been completely restored in all countries and gold made available for international adjustments. But even then, as Mr. Keynes himself admits, the fact still remains "that as an ultimate safeguard and as a reserve for sudden requirement no superior medium (to gold) is yet available."

(iii) Public opinion in this country is strongly against the existing monetary policy of the Government. It is due mainly to political suspicion. That India should be flooded with silver rupees, and that, with a smaller silver content, when all the leading countries of the world possess gold standards, and that the Government of the country should persist in maintaining this solitary rupee standard are factors which induce the people to attribute motives to the Government and thus unnecessarily cause estrangement between the people and the Government. Popular feeling in India has always been in favour of a gold standard. In spite of the fact that as long ago as 1898 the Fowler Committee endorsed such feeling and recommended the establishment of a gold standard the Government has without any valid or convincing cause, prevented the adoption of such a standard, and in its stead been continuing and applauding its spurious gold exchange standard, maintained out of the precarious profits of its silver purchases and profits of rupee coinage. The breakdown of this gold exchange standard when silver prices went high and the declaration of successive Currency Committees that the gold standard reserve of the Government did not exist for the trade purposes of the country are a plain confession of weakness and failure. If indeed India had had a gold standard, the depression of 1920-22 would probably not have happened at all. Further there is a good deal to be said in favour of placating public feeling in regard to currency matters. Whatever may be the higher merits of a more scientific standard founded not on any precious metal but on an index-number of general prices, the adoption of a gold standard is a concession to human weakness and conservative feeling. After all it has worked well in the past.

9. It will be seen from the foregoing that the establishment of a gold standard will be the simplest and soundest solution of the currency problem of this country. If it should be adopted, and the existing silver rupee made a subsidiary unit of value at a fixed ratio with the principle gold standard unit to be chosen, all existing difficulties regarding the rate of exchange between the Rupee and Sterling will automatically disappear, and a good deal of the controversy as to whether the rupee should be fixed at the pre-war level of one shilling four pence or at the present level of one shilling six pence, will have only an academic interest. The adoption of any thing other than a gold standard—either the Rupee Standard or a Silver Standard—will only create complications as to what shall be the rate

of exchange between the Indian and foreign currencies, and make the chances of achievement of a sound system of currency more difficult and remote. As silver has been demonetised in almost all countries, further submission to it in this country will indefinitely postpone the adoption of a gold standard to a distant date, and make it less and less easy to get at it at any future time. Hence unless the present most favourable opportunity is utilised, we may take it that the chances of India ever having a gold standard will greatly diminish, and the cost of adopting it at any future time increase enormously.

10. The adoption of a gold standard does not mean also the keeping of gold coins in active circulation. As Mr. Keynes points out, "a perfectly conducted gold standard does not require any gold at all." The employment of gold coins in active circulation is, from every sensible point of view, clearly undesirable and a waste. The one essential requirement of the actual medium of circulation, whatever that may be, is that it should be as convenient and economical as possible. The use of gold coins involves a wear and tear which is wholly unnecessary and avoidable. Nowhere in the world is there any desire for the use of gold for circulation as currency. It may be that, having been accustomed to the use of such coins in the past, people might desire to return to that habit, on account of superstition and conservatism. But there is no need for such use of gold in any country. In fact in many leading countries the currency habits of the people have so completely changed during the last 10 years that they have now become practically accustomed to paper currency and bank notes in the place of metallic money. It is unintelligible why Indian economists should advocate not a gold standard merely, but one with gold coins in active circulation. For example, it is difficult to understand the view recently expressed (without argument) by the acting Professor of Economics of the Madras University that " though the ideal system of currency arrangement is paper currency backed by gold, India may have to reach that ideal state after passing through a stage in which actual gold coins form part of the currency in actual circulation." The reason why this intermediate stage should be passed through is left unexplained. The only reason so far as I am able to see for the human desire for gold anywhere, is the employment of it as a fine precious metal, for social purposes. In India the desire for it is solely on account of its usefulness for ornaments and other kindred purposes, on account of the attractions of its smell and colour, as Mr. Keynes would put it. For example, on account of its cheapness and when there is no gold standard in the country at all, the annual import of gold into this country during the past three years purely for non-currency purposes, has been enormous, approaching a record limit of the value of nearly 74 crores of rupees during the year 1924-25. It may also be noted that already when there is no gold currency, India stands next to U.S.A. the largest buyers of gold in the London market. This craving for the social use of gold as well as the traditional habit of hoarding are detrimental to the employment of gold as currency in this country. Coins intended for circulation will almost certainly go to the melting pot. And there will be in consequence imperceptible deflation of the currency with all its attendant evils. An imaginary argument used to be advanced by the advocates of a gold currency that if only mints would be thrown open in India for free coinage, the hoarded accumulations of centuries as well as large quantity of what has been idly employed in jewels and other ornaments will flow to the mints to be issued back as coins. There is however absolutely no basis for this hopefulness. Only if we reflect on the situation that when gold prices went so high as to raise the price of the sovereign to Rs. 19 or so (in 1919-20) what would otherwise be expected as the natural human desire, namely, the readiness to sell at a profit the already absorbed gold in the market, was totally absent everywhere in the country, and that there was on the other hand, a large effective demand for further absorption even at such high prices, we shall find that it is beyond all doubt an idle dream to hope for the success of gold currency in this country. The silver rupee would also go the same fate, only if silver prices rose high enough to make the melting of its contents profitable. But for the rupee's intrinsic value being smaller than its purchasing power, the melting of it for ornaments and other social purposes will have been the general rule. In fact, in 1920, when silver prices rose high, it was found advantageous to melt the rupee, and a good many coins actually went to the melting pot; so that the subsequent deflation of the currency which has been wrongly attributed solely to the Government's withdrawal of a portion of it from circulation by means of sale of Reverse Councils, was also in fact due, to some extent at any rate, to the diminution in the volume of the currency caused by the melting of the coins. One reason for the fear that coins would be melted for social purposes is that silver and gold except in the form of coins are not easily available

to the people in the rural parts who naturally take to coins which are ready at hand. Only because the rupee contains a smaller silver content it has proved successful as currency in the past. It goes a good deal to the credit of the Government which so clearly understood the psychology and habits of the Indian people that it considered it necessary for the success of the silver rupee as currency to reduce its silver content in terms of its purchasing power. If gold currency should at all be used, then the only way in which it can succeed as currency is through the adoption of a similar method of issuing gold coins with a face value larger than its intrinsic value. That is why we find at least one knowing currency expert in this country, Mr. D. P. Khaitan of Calcutta, recommending the issue of gold mohurs with a smaller gold content than what their purchasing power may procure. Why there should be such a metallic medium at all for currency purposes has not however been explained.

11. If we can have a gold standard with paper currency backed by a reserve of gold and securities easily convertible into gold, that would be as effective or even more, and certainly more convenient and economical than such a standard with gold coins in circulation. Besides being kept as reserve against the circulating paper currency the further function which I would ascribe to gold in the currency system that I propose here, is similar to what Mr. Keynes would give to it in England—that it may be stored up in the vaults of the Central Bank "to be held as a war-chest against emergencies and as a means of rapidly correcting the influence of a temporarily adverse balance of international payments" (A Tract on Monetary Reform, page 195). And it is even true that, as the same writer elsewhere points out (Economic Journal, 1924, page 171) if only "those who manage the credit policies of banks were to acquire sufficient skill in the management of international adjustments no actual gold would be required at all". So that what I propose for this country is a gold standard, without gold coins being issued for active circulation—what some people would prefer to call an automatic Currency Exchange Standard. The existing silver rupee may continue in circulation as full legal tender but no more fresh silver rupees should be issued on account of the wastefulness and risk involved in the purchase of silver and the issue of rupee coins, especially having regard to the future course of silver prices and the solitariness of the policy when silver has been demonetised almost everywhere. The Government should no longer therefore purchase silver for fresh coinage. Further issue of currency should henceforth be in the form of paper notes backed by the reserve to the full extent of such issue. As the people of the country are familiar with the pound-sterling and the sovereign, the gold standard of the country may conveniently be in the terms of the pound-sterling and the internal paper currency may issue in denominations of hundred, fifty, ten, five and one pounds and ten and five rupees. The rupee may be reduced to the position of a subsidiary monetary unit at a fixed ratio of, say, 15 to 1 with the pound-sterling. This or any other ratio between the subsidiary unit and the main unit of currency will be unimportant for, and have no influence in international trade, and will not affect the course of the country's industry, trade, agriculture, or national finance. Both the existing paper currency reserve and the so-called gold standard reserve may be consolidated into a single currency exchange reserve pure and simple, against the expansion or contraction of which the whole of the internal currency and further additions to it should henceforth be regulated. Some patriotic economists may desire that instead of slavishly adopting the foreign currency unit —the pound sterling—we may have a mohur unit of 1 to 10 or any other ratio with the rupee. But the weighty argument against this is that our people are already very familiar with the pound and the sovereign and not so familiar with the historical mohur; so that to familiarise the people with the mohur will be a fresh difficulty. Besides this, the adoption of the mohur will involve the fixing of an exchange value with the foreign currency units, especially with the pound sterling with and through which our foreign exchanges have largely to be transacted, and the fixing of the exchange at any particular rate will unnecessarily create a complication which is avoidable under the scheme proposed herein. So our gold standard will be in terms of the pound-sterling. The paper notes inside the country will have to be entirely inconvertible, but be full legal tender. For making gold available for social use, import and export of it will have to be left entirely free, its value being determined by the market price.

12. For facilitating international payments the Currency Exchange Reserve of the country will have to be kept not only in the prominent commercial centres of the country, Bombay and Calcutta, but in those foreign centres through which our international trade, is mainly carried on, viz., London, New York, and Yokohama.

If world conditions are completely steadied, it will be to the great advantage of this country to hold its entire reserve in the form of international stock exchange securities easily convertible into gold. But under existing conditions it is safer to keep the reserve either wholly in the form of gold or partly in that form and partly in the shape of liquid securities, as may be determined—though personally I would prefer the latter course. In the foreign centres at least 60 per cent. of the reserve will have to be kept, while at Bombay and Calcutta the remaining 40 per cent. may be kept in equal proportion. If it should be thought that the reserve should consist partly of gold and partly of securities, then the question as to what shall be the proportion of the gold portion to the total extent of the reserve will have to be determined with due regard to the extent and nature of our international transactions. To my mind fifty per cent. may be kept in the form of gold bullion and the remaining fifty per cent. in the form of securities.

13. The entire currency system of the country should be entrusted to the Imperial Bank which requires to be first converted into a State Bank and a Bankers' Bank. The Bank should have its branches for exchange banking in the three foreign centres mentioned above and should be given the monopoly of exchange business besides the entire responsibility for the currency system of the country. By compelling all the other Banks to have their exchanges settled through this Bank its position as a Central Bank will be greatly strengthened. The entire exchange transactions of the country may well be carried on more or less in the manner in which the New Zealand Banks are at present carrying on. The New Zealand system is described by Mr. A. H. Tocker (Economic Journal 1924 page 561) as follows :—" Payments from New Zealand on international account are made by buying bank drafts or by meeting bills at the Banks in New Zealand. In either case debtors discharge their debts mainly by cheques on their bank accounts. Their deposits in New Zealand are thus diminished. But the bankers who transfer the funds merely pay out in London from exchange reserves held there. The payments made for all New Zealand imports thus deplete bank deposits (independent of advances) in New Zealand, and deplete to an equal extent the bank reserves held in London. On the other hand, payments to New Zealand on international account are made in London, where debtors again either buy bank drafts or meet their bills. In either case funds are paid into the exchange reserves of the London branches of New Zealand banks, and the banks transfer these funds to the creditors in New Zealand simply by crediting the amounts to their deposit accounts. Thus all payments for New Zealand exports, visible and invisible, bring increases in bank reserves held overseas for exchange purposes, and subsequent corresponding increases in deposits (independent of advances) in New Zealand, while all payments for New Zealand imports, visible and invisible, similarly diminish to an equal extent both bank deposts in New Zealand and bank reserves held overseas. It follows that the excess of deposits over advances in New Zealand (note circulation, etc., remaining the same) must vary directly with bank reserves held for exchange purposes overseas, and the extent of the variations of both is determined by the net balance of international payments."

14. Of course this system requires for its successful working the development of a credit system which we do not have in India at present India has been an essentially currency using country where monetary regulation consists in expanding and contracting currency as the Government from time to time thinks best. Whereas in New Zealand exchange banking is so highly developed that the foreign exchanges are transacted entirely through credit, that is to say, by the automatic expansion and contraction of bank deposits and bank reserves to the extent of the net balance of international payments. By strengthening the position of the State Bank in the manner indicated in this memorandum and by enabling the Bank sufficient liberty of credit expansion in this country to enable it as far as possible to provide bank deposits in India in exchange for international money paid to it in its foreign centres and sufficient liquid resources in sterling or other international stock exchange securities to enable it at all times to provide international money in the foreign centres against bank deposits and payments of currency in India, such a system can be easily developed in this country without much trouble or expense.

15. Besides doing exchange business, the Bank should be left in entire charge of Government remittances abroad and empowered to receive all moneys in its behalf both within and without the country. The existing system of Government treasuries may with advantage be adolished and the Bank made a general treasurer and custodian of the entire monies of the Government. This will effect

a considerable reduction in the expenditure now incurred by the Government in maintaining a costly staff for the collection of its revenues and taxes and for making disbursements.

16. Without an efficient Central Bank of the kind described above, a proper regulation of the currency and exchange system of the country is impossible. The Imperial Bank in its existing condition is wholly unfit for the task. At present it works only for the profits of its shareholders and has no public responsibility or interest, though it is getting all the advantages of Government deposits. It does also little or no exchange banking. In order to strengthen the position of the Bank it is first essential that its fundamental aim should be changed from private profit making to the discharge of a public function. The profits of its shareholders should be limited to 8 to 9 per cent., unwilling members being paid off their share monies. The profits of the Bank being mainly due to the prestige and power conferred upon it by Government, and to social causes, there is no rationale in permitting the shareholders to enjoy the whole of the booty.

17. The Bank's personnel should also be thoroughly changed so as to divert its attention more to public than to private interests. The constitution of the Federal Reserve Board of the United States of America may be adopted *mutatis mutandis* to suit the conditions of the country. Both ex-officio and other members will have to be nominated by Government, with due regard to their expert knowledge of banking. The foreign branches of the Bank should each have an Indian as its Secretary or Assistant Secretary. And the Bank should have an Advisory committee of experts in London for advising it from time to time in regard to the country's exchange policy. The present Central Board of the Imperial Bank is too weak and powerless for any constructive or originating action. In all broad currency policies the Bank should be made to act in close conjunction with the Finance Member, as does the Bank of Japan in that country. In this connection it appears to me to be of some use if the attention of the Commission is invited to certain changes that have been recently effected in the functions and management of the Commonwealth Bank of Australia. The Reform Scheme of the Commonwealth Bank Bill which was presented before the Australian Parliament in June 1924 contains the following among other provisions which, I understand, have since been adopted:—

(1) The appointment of a Board of Directors representing special commercial and industrial interests to control the Bank (previously, control was exercised by a Governor appointed by the Government, but acting on his own authority).

(2) The abolition of the Notes Board and the control of the note issue by the Bank.

(3) The strengthening of the Bank by the provision of further capital.

(4) The granting of power to the Bank Board to fix and publish discount rates.

(5) The provision that the private banks should settle their exchanges through the Commonwealth Bank.

18. If our proposed State Bank should be made to become a Bankers' Bank its discount rates as in the case of the Bank of England and the Australian Commonwealth Bank may be usefully employed for determining the country's international exchange position, as well as for regulating credit at home and maintaining the stability of internal prices.

19. Under the existing system of currency in India the volume in circulation is dependent not on any principle of automatic regulation or scientific management but on the will of the Government. Under the scheme that we are proposing in this Memorandum the Bank being given full control over the currency system should be made to regulate the volume of internal currency with reference to the extent of the trade balances the net expansion or contraction of which (remaining after adjustment through the expansion of credit at home, that is, bank deposits) should be made to govern the expansion or contraction of the volume of currency. Thus when there is a favourable balance, to the extent to which it remains unadjusted by means of the creation of credit, i.e., bank deposits, the Currency Reserve will increase; and to the extent to which the Reserve increased, the internal currency should be made to increase. This will tend to raise internal prices and bring down the balance of trade to equilibrium point. Similarly in the event of an unfavourable balance, to the extent to which it remains unadjusted through contraction of bank deposits at home, there will be a flow of internal currency into the bank and a corresponding depletion of the Reserve. This in its turn will lower prices in the country and tend to restore equilibrium of the trade balance. Of course, there is a special difficulty in respect of an automatic

regulation of the currency in this form, because that will ignore the course of the internal credit situation, and so long as it does not take into account the credit expansion or contraction through local causes, it may fail to ensure the stability of internal prices which is sought to be secured by the above-mentioned scheme. Mr. Keynes's restatement of the Quantity Theory in his equation is as follows :— $n=p\ (k+rk')$. It will be seen that variations in r, and k' may be either wholly or partly independent of variations in n and may exert an influence over p wholly unconnected with or uninfluenced by n. Now if from the adjustment of trade balances n is made to expand and contract by the automatic issue and withdrawal of currency against the expansion and contraction of the Reserve, then it is clear that unless r and k', except to the extent of bank deposits created by the Bank in its exchange transactions, have been keeping stable in the meantime, there may be unexpected variations in p due to local changes in r and k'. For example, apart from any variations in the volume of currency and credit due to the adjustment of the foreign accounts, there may be an improvement in the banking habits of the people which may cause variations in the internal credit expansion, sufficient enough to exert an independent influence over prices. Or it may so happen that the industries of the country, especially those whose goods and services do not enter into international trade, may develop and cause an expansion of credit in the country leading to a rise in prices. Or there may be a depression of such industries and a contraction of credit therefore. And again it cannot always be taken for granted that the home prices of such goods and services move in the same direction or proportion as those which do. Unless therefore the regulation of the volume of currency and credit is determined not merely with reference to the trade balance but with due regard also to internal causes effecting the expansion and contraction of credit, there may not exist such a stability of internal prices as may be expected to result from the automatic regulation. If the whole credit situation is affected by the same causes, in the same direction, and to the same extent, then there will be no fear of a diversity in its influence on prices. But credit may be both cumulatively and diversely affected by independent causes and through play of local factors as well as international forces. In such case, if stability of the price level is to be secured, that is, if the internal currency should be made to have a stable purchasing power, then the volume of currency and credit should be regulated not automatically with reference to the trade balance alone, but also with due regard to the expansion and contraction of credit through all causes. In view of the fact that the State Bank in our scheme is made a Bankers' Bank it can efficiently control the internal credit situation by means of its Bank rate and rediscount policy. Thus with full powers of control over both currency and credit the Bank may successfully maintain stability of prices as well as stability of exchange.

20. One serious objection with regard to our adoption of the gold standard deserves to be considered. The objection is that there is no guarantee that gold prices will in future be stable. It is stated that on account of its present cheapness and its possible vagaries and future unforeseeable fluctuations in its real purchasing power gold will prove a much less safe standard of value than in former times. The cheapness of gold at present is mainly due to the consequences of the War— The decrease of the world's effective demand for gold due to the impoverishment and bankruptcy of many countries and the general withdrawal of gold from circulation in many countries. If the bankrupt countries should soon recover as they are bound to, and the world's production of commodities increase, the price of gold must also increase by means of a fall in general prices. It may also increase through shortage of further supplies of gold which is likely to happen on account of the absence of discovery of new mines and the heavier cost of bringing to the surface the remoter deposits in existing mines. But then there is an equal reverse possibility. The price of gold at the present moment is artificially maintained by the policy of the Federal Reserve Board of the United States. In order to maintain the purchasing power of the dollar the Board's policy is to bottle up all redundant gold in the vaults of Washington. Unless the United States should close her mints and suspend free coinage, this must inevitably result in the break down of the dollar. And if the Board should change its policy and begin to let loose on the world market its bottled-up gold, or at least close her mints to further coinage then the price of gold will sink down, without the support of the American monetary demand. Thus there is as much possibility of gold rising in price as there is of its falling. We may fairly assume that under present circumstances the opposing forces may fairly be expected to maintain the present level of the price of gold. So then this is not a consideration that need deter our adoption of the gold standard.

21. Again assuming one or other of the possibilities to happen, then facilities should be provided for regulating and stabilising the world value of gold either through international co-operation on the part of the Central Banks on the lines suggested by the Genoa Conference and strongly advocated by Mr. Hawtrey in his book on "Monetary Reconstruction", or by some other device of the State Bank being prepared to purchase and sell gold in exchange for securities in its Reserve; or more efficiently by collaboration with the Bank of England between which and the Indian State Bank there is certainly greater possibility of effective co-operation than between any other Central Banks. As Mr. Hawtrey says it is possible that the Federal Reserve Board of the U.S.A., whose credit policy has now been largely determining the world value of gold will soon have to submit to a gradual stifling of their control of credit on account of the process by which their supply of gold has been accumulating. As the accumulations are yearly increasing and the earning assets of the Federal Reserve Banks are gradually shrinking, the power of the Banks to control and regulate credit stands to the chance of being much impaired. If such impairment should happen the dollar must depreciate inevitably. And then, as the gold supply of the Central Banks of the leading countries is also considerably large, the Federal Reserve Board will not be unwilling to co-operate with the Central Banks in regulating the price of gold. If all the leading countries should adopt the gold standard in the same way as we have suggested here, and suspend the free coinage of gold for internal circulation and regulate the value of gold, each within itself on the basis of an index-number of general prices, both stability of prices and stability of exchange are easy of achievement. This scheme only means that instead of having a "managed" currency, we are to have a currency based on gold which is to be "managed", that is to say, a "managed gold standard".

22. Mr. Keynes rightly argues that if in the interests of stability, gold requires to be "managed" in terms of general prices, it becomes a commodity standard pure and simple, though in a round-about way. Why then should we retain gold is his question. The answer is that it is safer to trust gold than to trust our financiers, and that the sudden and complete abolition of gold will be a violence to popular feeling and prejudice which require to be placated.

APPENDIX 41.

Statement submitted by the Marwari Trades Association, Calcutta.

It is well to begin this Memorandum with a word indicating its scope. Of the questions whose right solution is the *raison d'etre* of the Commission, there are two which in importance overshadow all the rest; and to a consideration of these, from the point of view of a large and important section of the Indian mercantile community, this Note tries to address itself. The first question is whether we ought to have a gold standard with a gold currency, and the second is, what relation is the rupee to bear to our standard unit; though, put thus, the second is only a corollary of the first.

2. Twenty-seven years ago, there was a committee of experts, known as the Fowler Committee, appointed by the Secretary of State to investigate the position and to submit suggestions for the establishment of "a satisfactory system of currency" in India. Previously to this, His Majesty's Government, in closing the Indian mints to the free coinage of silver, had adopted a policy which had for its declared object the establishment of a gold standard in India. The Fowler Committee endorsed the Government's decision in favour of a gold standard, but at the same time they recorded it as their considered opinion that the only way to make effective the policy adopted in 1893, was to give India a gold standard with a gold currency. Schemes had been proposed for establishing a gold standard *without* a gold currency, but the Committee, after giving them its best consideration, was unable to recommend any one of them as either a permanent or a provisional measure. They recommended the throwing open of Indian mints to the unrestricted coinage of gold, as the only way in their view of the effective establishment of a gold standard, was to base it on the "free inflow and outflow of gold." The Committee's recommendations were accepted by the Government, and yet, after the lapse of more than a quarter of a century, we are as far off as ever from having what the Committee said we ought to have and the Government said we were going to have.

3. It is true that the Fowler Committee had recommended the coinage of the British sovereign, and the British Treasury would not let this be done on any

terms whatsoever, but that the difficulties raised by their hostility were insurmountable it is hard to believe. Whatever that might be, it was decided in 1903 to drop the idea of the Bombay branch of the Royal Mint. The question was revived in the Imperial Legislative Council eight years later, and in 1912 the Government of India addressed the Secretary of State, submitting proposals for the coinage of sovereigns at Bombay. But just when it seemed likely that something at long last was about to be done we had the Chamberlain Commission, and the whole matter was left open pending its recommendations. That Commission, as is well known, spoke disparagingly of all efforts to encourage the circulation of gold as currency, the existing system in their view being admirably adapted to the needs of a country like India. At the same time, they had no objection to the establishment of a gold mint in India, provided Indian sentiment genuinely desired it and provided the coinage was of the sovereign or half-sovereign. Their recommendations were under the consideration of the Government of India when the War came, and it was decided to postpone action until the return of normal conditions. The situation created by the War led to arrangement being made for gold coinage in 1918, but the arrangement was only temporary, and the coinage was subsequently suspended. After this we had the Babington-Smith Committee, which had nothing different to say from the Chamberlain Commission as to the desirability of an extended use of gold currency in India. But the prevailing high price of silver, coupled with the necessity of ensuring confidence in the note issue, led them to recommend the reopening of the Bombay branch of the Royal Mint, where facilities should be afforded to the public for the coinage of gold bullion. Even this was never given effect to. Such in brief is the chequered history of the proposal to supplement the gold standard with a gold currency.

4. A half-hearted policy on the part of Government, and perverted reasoning on the part of its advisers, have defeated the intention of the Fowler Committee from being realised in fact. And yet, if Government is anxious to carry public opinion with it in the initiation of measures that it may decide upon to better the currency situation, it must see that the recommendation of 1898 is given effect to without any further loss of time. It will not do to say that the Government has all along meant well, and that it has been moving steadfastly in the direction indicated in the Fowler Committee's report. All the time that Government has been sitting on the fence and postponing action the conviction has been gaining ground that it was not actuated by the best of motives in the matter, and under one pretext or another was simply trying to keep the country for ever deprived of what it was legitimately entitled to. The policy followed since 1905 of selling Council bills so as to divert the stream of gold from its natural course has lent support to the popular faith. The ideal has never been officially forsaken; we have all along been told that the culmination of the policy that was being pursued was the establishment of a true gold currency as the basis of a gold standard, but apart from such assurances there has been no tangible proof offered by Government that they were moving, or were really anxious to move, towards that goal.

5. It is not that the question is merely one of asking the Government to fulfil past promises, irrespective of any good that their fulfilment in the present circumstances might be likely to yield. We ask for a true gold standard because we know full well the extent to which the so-called exchange standard can lend itself to manipulation, and the harm that such manipulation can spell to the economic interests of the country as a whole. The system has become well-nigh intolerable, and the only reason why it stays is official obduracy or supineness, which will not realise the need of the situation and replace it by another. We have as a result of the prevailing system two standards, so to say : a standard *de jure* and a standard *de facto*, and since the legal worth of the standard *de facto* is so much in excess of its intrinsic worth, people are bound to regard with increasing suspicion a policy which compels them to receive it as the equivalent of about 50 per cent. more than its real value. The only way of eliminating all chance of official "management" to the gain of either one section of the community or another, and of restoring the confidence of the people where it has been shaken and of retaining it for all time in the future, is to give them a gold standard with an actual gold currency and with rupees as only subsidiary coins. To succeed for any long time in maintaining a currency whose legal and real values are so widely different is tantamount to gambling on the ignorance of the people; but since India is becoming more enlightened every day, even that ignorance cannot help matters much or long.

6. We condemn the gold exchange standard on the grounds that it is liable to be tampered with dangerous ease, and that it is bound to be viewed with increasing dissatisfaction likely at any moment to endanger its very existence. And on the very same ground we advocate a gold standard with a gold currency. Had there been a gold standard in the past we would never have a deliberately appreciated exchange at 1*s*. 6*d*. to-day when England has already returned to the gold standard. We advocate a gold currency not because we want the gold coins to take the place of notes or rupees—we would have as much gold as possible in the treasury rather than in the pockets of the people—but because any scheme of a gold standard without a gold currency is to our mind a meaningless proposal which can at its best inspire no confidence in the minds of those whose needs it would serve. The gold currency is but a means to an end, and the end in this case is the maintenance of a standard which will brook of no tampering, and which will be able to stand every strain put upon it. We want the gold currency as the visible symbol of a gold standard, so that while, on the one hand, it would inspire confidence in the minds of the people as to the reality of the thing, it would, on the other, act as a safeguard against that standard being tampered with either one way or the other.

7. We, therefore, suggest that India should have a gold standard, with its logical consequence of a gold currency. We propose a gold mohur of the same fineness and weight as the British sovereign, with rupees serving the function of subsidiary coins at the ratio of 15=1. Rupees might retain their character of unlimited legal tender for the present, but after the gold standard has been effectively established the amount should, in our opinion, be limited to Rs. 100. We do not forget that a 10-rupee mohur would be a more convenient coin for purposes of calculation, but we cannot ignore the difficulties which the Government may have to face in finding sufficient gold for backing the note issue, and meeting the demand for conversion of rupees into mohurs. We would, therefore, have for the present a 15-rupee mohur, which will offer less attraction for purposes of absorption. But after a time, when the gold position is firmly secured, Government can even introduce 10-rupee and at a later period 5-rupee mohurs. The difficulties of calculation might be overcome if we call the 15-rupee mohur a one-and-a-half mohur and the 10 and 5-rupee mohurs, one and half mohurs respectively.

8. We shall now deal with the difficulties in the way of an immediate establishment of a gold standard with a gold currency. While we do recognise the difficulties we do not wish to give them undue significance. Put briefly, they would appear to be the following:—

1. The obtaining of a large quantity of gold required to replace a portion of silver in the paper currency reserve and to meet the demand for conversion.
2. The necessity of finding the money for purchasing the requisite gold.
3. The probable consequence of a large purchase of gold on the world prices.
4. The loss caused to Government by sales of silver and cessation of further silver coinage, and the loss of interest on the capital put into gold required for the above-mentioned purposes.

9. We shall take up the question of finding the requisite gold first. We have to consider what quantity of gold will be reasonably sufficient to justify us in embarking on the policy outlined in this scheme. This means estimating the volume of demand for mohurs in exchange for rupees or notes. Now the probable demand for conversion would seem to fall under three heads:—

1. Demand for melting the coins for making ornaments, etc.
2. Demand for hoarding purposes.
3. Demand for circulation as currency.

10. It is a very hard task, if not an impossible one, to gauge the probable demand for mohurs under the three heads, but knowing as we do the extent of the demand for sovereigns in the pre-War period, we might venture upon a guess which we hope will not be far wrong. We will first of all deal with the demand likely to arise from the melting of sovereigns. The petty purchasers naturally will find it more convenient to purchase mohurs for making their ornaments rather than purchase a small lot of gold from the retail shops, and thus there is bound to be a constant demand from this source at the treasury. But since this outflow of mohurs from the treasury will be similar to an outflow from the shop of the retail dealer, this cannot be treated either as an extra demand for gold or a replacing

of notes or rupees. To the extent that gold is taken by the petty purchaser from the currency, the demand is lessened elsewhere, and no extra effect produced on the gold market. There is a certain amount of consumption of precious metals in India which varies according to a good or bad season. This gold is not hoarded, but consumed in the sense that it is made into ornaments for use. In India it is a fashion for the ladies and in some provinces for men to wear ornaments made out of gold. The requirement will have to be met whether the supply comes through the private importers or through the currency office. Such demand, therefore, as is caused by the melting of gold mohurs should not be treated as an extra demand, and can have no effect either on the market or on the circulation of the notes or of rupees. We next come to the demand created by those who have been hoarding rupee coins up to now, and who now wish to convert their rupee hoards into gold. The story of hoards like that of the rope trick has been repeated time and again by men who pretend to know things about India which we Indians, who live, move, and have our being in India, know nothing about. If any one means by hoards a large amount of precious metals consumed every year in making ornaments, which is a fashion in India, and which can have no effect on the conversion of silver coins into gold, it is all right. But when it is suggested that there is a large amount of coins hoarded with the poor of this country, which may at any time come back to the currency office to seek conversion into mohurs, then one only feels amused at the ignorance displayed. India in the first is a very poor country. One-fourth of its population barely gets sufficient to secure the necessaries of life. Those who are a little better off and can spare some money will first of all like to put it into either building a pucka house (as most of the cultivators in India have got kutcha houses), purchasing cattle or land, and last of all making ornaments. We know of the Indian cultivator as a debtor to the Baniya, and paying as high an interest as 24 per cent. It is improbable that a man would be paying as high an interest as 24 per cent. on the one hand and hoarding treasure on the other. The Baniya, who is a sort of a banker to the agriculturist population, is too shrewd to put his money under earth in an unproductive manner. We must, therefore, not give too much importance to the theory of "hoards." So far as the Indian States are concerned, most of them have got their wealth invested in industrial enterprises. Excepting the Nizam, we do not know of any State having any large capital uninvested at its disposal. Even if we admit the fact of hoarding to a small extent among the poor class of India, we think that a mohur of a denomination of Rs. 15 will not be a very attractive form for hoarding purposes. However, for all practical purposes we must be prepared to face a demand for mohurs in exchange for rupees arising from the hoaders, and also from the use of the mohur as the medium of daily transactions. What the demand could be is so difficult to estimate, but we think that we can seek enlightenment from past history and from the statistics of the total silver coins in circulation at present. If we take the figures from the year 1901-02 to 1912-13, we find that during a period of 12 years India did not absorb more than £60,000,000 (sixty millions) of sovereigns, or an average of £5,000,000 (five millions) per year. Calculated at Rs. 15 to a sovereign the total absorption comes to rupees 90 crores worth of gold coins or rupees 7½ crores worth of sovereigns per year. This absorption is not such as to frighten the Government. True that the times have much changed since then. But it should not be forgotten that Government under the old regime of the gold exchange standard was not bound to supply sovereigns in exchange for rupees. People knew very well that if it did not suit them the Government could at any time refuse to issue sovereigns against rupees, and yet they did not absorb more than rupees 90 crores during a period of 12 years. And even of this a large part was for melting purposes, which could only be called a diversion of business from the retail shopkeeper to the currency office. It would not be unreasonable to think, therefore, that when Government would be bound to supply gold coins in exchange for silver notes people will have more confidence, and will not rush to currency office to get their silver converted into gold. It would be useful also to note here that at the end of the last century, most of the European countries in imitation of the English currency system introduced a gold currency, and found that it could not successfully compete with the paper currency. The fact that in India most of the business transacted is in very small amounts should be a sufficient guarantee against undue absorption of the gold coin. Moreover, what people were like in European countries at the end of the last century, people in India are beginning to be like to-day after 50 years. The fact that the one-rupee notes became so popular in a very short time should be a sufficient proof to show how people here are getting accustomed to the paper currency, and we see no justification for fearing any undue

strain on the currency in meeting the demand for gold coins. We think gold mohurs to the extent of 45 crores of rupees will be quite sufficient to meet the abovementioned demand, and adding to it the amount of about 65 crores required, as explained, later on, for augmenting the gold portion of the paper currency reserve, we think that gold of the value of about 110 crores should be quite sufficient to warrant our embarking on the policy advocated.

11. The question henceforth resolves itself into one of devising means for obtaining a supply of rupees 110 crores worth of gold. Let us see if we could tap some of the already existing sources. We have first of all the gold standard reserve, which contains £40 millions gold, or converted at 1*s.* 4*d.* exchange 60 crores of rupees. The paper currency reserve had on 15th October 1925, as against a total note issue of 190·52 crores, a backing of 43·32 crores in gold and sterling securities, of 57·11 crores in Indian securities, and of 90·09 crores in silver coin and bullion. The gold bullion and sterling securities have been calculated here at 2*s.* exchange, but if calculated at 1*s.* 4*d.* they show an increase in the value of 21·66 crores. The amount of this increase, added to the amount in the gold standard reserve, makes a total of 81.66 crores gold available, as against the 110 crores required for our purpose. Then we have about 90 cores of silver in the reserve, out of which we propose the selling of about 40 crores to provide us the necessary gold to complete a total of 110 crores. A gold standard can have no meaning if the note issue is backed largely by silver and Indian securities, which cannot be converted into gold in time of emergency. Moreover, we think that after the establishment of a gold standard with a gold currency it would be simply a waste of resources to have a subsidiary coin made from a precious metal. One-rupee notes had attained quite a good popularity, and we would favour their reintroduction under the new regime, though the issue of fresh currency in the shape of one-rupee notes should be undertaken only after the silver rupees in Government reserves had found their way into circulation. We consider it wasteful to keep money locked up in silver to the present extent, and we recommend that a portion of the silver in the currency reserve be sold off and replaced by gold. It is not quite possible to say what amount exactly could be realised by such sale, but assuming that this portion is mostly in silver coin we do recognise that it would cause a big loss. The mere giving up on the part of the Government of India of the policy of minting silver rupees, will be sufficient in any case to cause a serious drop in the price of silver, and when to this is added the necessity of disposing of a large portion of the stock of silver in the currency reserve it is likely to depress the market further. We think that the depression could be counteracted to a considerable extent by imposing an import duty on silver at the rate of 4 annas per oz. The lowering of exchange to 1*s.* 4*d.* would also be giving a substantial protection to the silver market. If both these factors have full effect on the market, the price might rise by Rs. 20 per 100 tolas. But we do not think that these will have their full effect. In spite of the remedies suggested, therefore, there is bound to be a loss from silver sales, though it is difficult to say what this loss will amount to. All the same, we think that India would rather face this loss than tolerate the constant invisible taxation imposed upon it by a debased currency, the legal worth of which, as we have already stated, stands so much above its intrinsic worth. We think that three years would be quite a sufficient period within which the proposed silver rate might be gradually effected in India itself after the imposition of the proposed import duty and the bringing of exchange to its original level of 1*s.* 4*d.* We have stated above that a supply of 110 crores worth of gold would be quite sufficient to justify us in embarking on the new policy, and we have indicated how the gold standard reserve and the gold and sterling securities portion of the paper currency reserve might be made to yield us a supply of about 82 crores out of this. We have also suggested the sale of a portion of the silver in the paper currency reserve; and, although we cannot accurately estimate the amount to be realised from the sale, we can safely predict that these measures between themselves will enable us to obtain the necessary amount of gold.

12. The composition of the paper currency reserve on 15th October, 1925, was as follows :—

Crores.	
43·32	Gold and sterling securities.
90·09	Silver coin and bullion.
57·11	Indian securities.
190·52	

13. This on the revaluation of the gold and sterling securities at £1 = Rs. 15 would stand as under :—

Crores.	
64·98	Gold and sterling securities.
90·09	Silver coin and bullion.
57·11	Indian securities.
212·18	

14. To this is to be added rupees 15 crores brought from the gold standard reserve after providing from it the 45 crores required for conversion of rupees, so that we get a backing in the paper currency reserve of 227·18 crores, as against a total note issue of 190·52 crores. The increase in the value of gold and sterling securities, and the bringing over of Rs. 15 crores from the gold standard reserve, have between themselves made an addition of 37 crores, and we require about 28 crores more to make up the 65 crores which we would see added to the amount of gold in the paper currency reserve. For this we propose the selling of 40 crores of silver out of the 90 crores, which may be estimated to give us about 30 crores of gold. The position would thus stand in round figures something as under :—

Crores.	
65	Gold and sterling securities.
15	Brought from the gold standard reserve.
30	Gold provided by the sale of 40 crores of silver.
110	Crores in gold.

	Crores.	
	110	Gold (brought over from above).
	50	Silver coin and bullion.
	57	Indian securities.
Total	217	

15. The excess over 190·52 crores may be utilised towards cancelling the "created" securities; and we may thus have a composition of the paper currency reserve, more than 58 per cent. of which will be in gold, as strong a position as it might be desirable for our purposes to have.

16. We have estimated the amount of gold necessary to warrant the realisation of the proposed scheme, and we have indicated the ways and means to secure that amount. We now proceed to a consideration of the question of securing the necessary supply, and of the effect, if any of our purchases on the level of the world prices.

17. India has of late been importing a large quantity of precious metals. The following figures will be found interesting in this connection :—

Year.	*Gold Imports.*	*Silver Imports.*
1919-20	Rs. 35,33,03,000	Rs. 29,22,88,000
1920-21	,, 2,10,82,000	,, 6,48,40,000
1921-22	,, 2,86,45,000	,, 15,09,62,000
1922-23	,, 41,19,08,000	,, 18,35,47,000
1923-24	,, 29,18,64,000	,, 18,69,80,000
1924-25	,, 76,77,50,000	,, 30,07,41,000

18. During war-time the scarcity of the precious metals kept India practically starved of them. The huge imports of 1919-20 are due to the fact that India had starved during the war and she was eager now to make up for her past starvation. 1922-23-24 saw very good monsoons. This added to the cheap rates of gold and silver compared with those of war days and the fall in gold rates consequent on a high exchange have contributed to the very huge imports of recent times. We think, in fact, that recently India has imported more gold than she could possibly consume. A price of Rs. 21 per tola of gold is a most attractive rate to an Indian who cannot remember having seen this price for a very long time. Therefore, it was not surprising if Indian speculators imported huge quantities of gold in expectation of realising higher prices later on. When exchange was stabilised, there could be no fluctuation in rates and consequently there used to be no speculation in gold in those days. But under a fluctuating exchange with its necessary reaction on the gold market it was not surprising

if a large amount of speculation became an ordinary phenomenon. We do not think that any extra requirement of gold for the purpose of establishing a gold standard with a gold currency would be so big as to cause any appreciable effect on the world prices. But a fairly good portion of the requirement could even be purchased in India when exchange is brought back to its old level, namely, 1*s*. 4*d*. As we have stated above we think that owing to very attractive rates India has imported more gold than she could consume. We also know how in the war and post-war periods, when prices of gold and silver stood high, large quantities of these metals used to come for sale to Bombay and Calcutta from the interior. We think, therefore, that when exchange is brought back to 1*s*. 4*d*., gold and the price of gold has risen again to Rs. 24 per tola, a good quantity of gold could be purchased even in this country. We thus believe that the meeting of our gold requirement would not be such an important factor as to cause any appreciable effect on the world prices. Regarding the decrease of revenue caused by the loss of seigniorage and interest on the extra capital required for purchasing gold and such other incidental items we have nothing to say. We do not grudge this loss if this be the price we have to pay for getting a sound system of exchange and currency.

19. We think that three years will be quite a sufficient period for firmly establishing a gold standard with a gold currency, and meanwhile we suggest the carrying out of the following preliminaries by way of preparing the ground for its advent :—

1. Government should immediately announce their policy of establishing a gold standard with a gold currency.
2. The ratio of exchange should be brought back to 1*s*. 4*d*. We are dealing with this subject in the latter portion of our Note. This will direct the flow of gold into Government hands which will be helpful in establishing an effective gold standard.
3. Mints should be thrown open to the public for the coinage of gold mohurs.
4. A duty of annas 4 per oz. should be imposed on imports of silver.
5. Forty crores worth of silver from this side of the paper currency reserve should be sold off gradually in India through the Imperial Bank and converted into gold.

20. We think after these preliminaries are fulfilled, which would at the utmost require a period of three years, the time will be ripe for establishing the proposed gold standard with a gold currency and Government then could safely embark on the policy enunciated in our note.

21. The problem of exchange is very much simplified, or even solved, by the adoption of a gold standard, but there is still to be determined the question of the ratio of the present rupee to the gold mohur. We have already stated that the ratio should be Rs. 15, equal to a mohur of the same weight and fineness as the British sovereign. We think that any other ratio than this would be a deliberate violation of old contracts. But, before marshalling the arguments in support of our contention, we would digress for a while into past history bearing upon this subject. Before 1893 the purchasing power of the rupee used to vary with the price of its silver content as measured in gold. There was nothing unnatural in this, although it was not a matter of convenience to trade and business in general. The average price of silver in 1890-91 was 47$\frac{11}{16}$*d*. per oz. and the exchange value of the rupee about 1*s*. 6*d*. Before this, silver had stood still higher and it was its downward tendency which was a source of great anxiety to the Government. There is a limit to any fall in the prices of commodities, and the best thing would have been to wait a little longer until silver had fallen sufficiently low to indicate that the bottom had been reached. But the protests of the public had no effect on the Government and they proceeded to close the mints to the free coinage of silver and to fix the exchange value of the rupee at 1*s*. 4*d*. It was well-known to them that the ratio they were adopting was not a natural or equitable one. The price of silver then was about 40*d*. per oz., and the exchange value of the rupee a penny below than the rate adopted. Silver was still on the downward grade and reason could never recommend a high rate like 1*s*. 4*d*. But Government turned a deaf ear to all protests from the Indian mercantile community and decided upon a ratio which was both unnatural and unreal. And having once adopted such a ratio they were determined to maintain it at all cost. They did not succeed in the beginning and it would have been a wonder if they could. But they took recourse to deflation, and by starving the country of fresh currency for six continuous years, they were eventually able to reach their goal and screw up exchange to 1*s*. 4*d*. The price of silver had tumbled from 40*d*. in 1893 to

27*d.* in 1899, but the exchange value of the rupee, thanks to the contraction of circulation, had within the same dates, appreciated from about 15*d.* to about 16*d.* This in brief is the history of how the rate of 1*s.* 4*d.* was reached. We would not be far wrong if we said that the present rate of 1*s.* 6*d.* has been reached in much the same way. The policy which the Government has pursued in our days affords a close parallel to that pursued toward the end of the last century and there is no wonder that it has forced up exchange to-day to 1*s.* 6*d.* as it forced this up to 1*s.* 4*d.* at that time. We mention this to show how hollow is the contention of those who would have us believe that 1*s.* 6*d.* has been reached in quite a natural way and that there is no artificiality about it. One would be amazed to calculate that had the free mintage of silver continued to this day, the exchange value of the rupee would have stood somewhere between 10*d.* and 11*d.*, and yet we have got plenty of advocates of an 18*d.* exchange in our midst!

22. An automatic expanding currency is a constant need of a country which exports more than it imports. Even at the prevailing rates of exchange, if Government refuse to issue Indian currency against sterling, the rupee, in absence of any other means of adjusting foreign accounts, is bound to appreciate still further. But that does not argue anything in favour of a higher exchange. There are advocates of 1*s.* 6*d.* who recommend this ratio on the ground that it has been effective for the last 12 months. To such we would recommend a perusal of the following extract taken from the note of dissent of Messrs. Campbell and Muir, Members of the Fowler Committee who were in favour of a 1*s.* 3*d.* exchange :—

> "The advocates of a 1*s.* 4*d.* ratio point to the fact that this rate has now been, more or less, effective for the last 18 months, thereby establishing a *status quo* which it would be unwise to disturb. This argument would have greater weight if the *status quo* had been arrived at in a natural way; but the circumstances under which it was reached have only to be considered to deprive it of any value. With no fresh currency otherwise obtainable the monopoly rupee was bound in time to rise to whatever gold point the Indian Government chose to fix, and the fact of its having risen in five years to 1*s.* 4*d.* is of itself no more a proof that 1*s.* 4*d.* is an equitable ratio than it would be in regard to 1*s.* 6*d.* or 1*s.* 8*d.* which could equally be reached in course of time. To arrive at a rate in this manner and then point to the accomplished fact as disposing of any question of its propriety is not convincing, especially if there is reason to believe that a rupee so greatly enhanced is calculated to have an injurious effect on the country's interests and to retard or even jeopardise the success of the gold standard."

23. The reason why we are for the 1*s.* 4*d.* rate to-day is that however unreasonable it might have been in the beginning to adopt such a high rate, when once it was adopted and placed upon the statute book, it became henceforth a rate which could never be altered except for the gravest of reasons. Then again, there is this to be borne in mind, that this rate worked wonderfully well for nearly 20 years before the War and led to contracts worth hundreds of millions of rupees being entered into at 1*s.* 4*d.* The adoption of a higher rate than this would, by a mere stroke of pen add several crores to the liabilities of the borrowers under these contracts, who belong mostly to the poorest class.

24. The last four years have seen a succession of exceptionally good monsoons, but there is no certainty that this spell of prosperity is going to continue long The chances, on the contrary, are that we might have to face one or two bad years. These last four years were an exception to the rule, and we must not gamble upon the chance of their continuation. But it is noteworthy that even four good monsoons in succession have added nothing to the purchasing power of the people. The reason of this has to be found in the appreciated exchange. The agriculturist could not obtain the price for his produce which he could otherwise have done. A great portion of the country's savings lies locked up in gold which has been made artificially cheap. The argument that 1*s.* 6*d.* will keep the price at a low level seems to us to be most misleading. Price depends mainly on the operation of the law of supply and demand, and if a high exchange cheapens the price it cheapens only in term of rupees and not in term of commodities. As is well-known, the trade balance is generally in favour of India, and under the circumstances to force her to part with her surplus produce at cheaper rates cannot certainly be in her interest. While the liability of the poor man in this country is entirely in term of rupees his wealth and savings are in term of commodities, such as house, cattle, stock of grain, utensils, ornaments, etc. It is not very difficult, therefore, to gauge the extent of

the loss which a deliberately appreciated exchange can cause to the poor man. Dealing with this aspect of the case, the members of the Fowler Committee whom we have already quoted, had the candour to characterise the raising of the exchange to 1*s*. 4*d*. as the levying of "an unfair tax on native production while conferring a bounty on imported goods." Speaking of the loss to the producer and of the gain to the consumer of the imported goods, they pointed out, and rightly, too, that "it can never be sound policy to handicap native industry while giving a bounty to foreign importers, and in the case of India, with large foreign obligations, which can only be met by surplus exports of produce, it would be a fatal course to pursue," and, further, that "to deny that arbitrary enhancement of the currency is a tax, and to argue that the producer is no worse off in the long run, that wages and other charges must in time adjust themselves to its altered value, is to maintain the dangerous principle that the Government may lighten its liabilities without injury to anybody by a step of this kind. Such a step is undoubtedly a tax on production, and if the Government plead that in the absence of any other available source of revenue trade must bear it, it is unwise to throw the whole of it on one side of trade, the side which it is least expedient to tax, and to penalise production while giving a bounty to foreign importers." Although the note was written 27 years back it holds true to this day, and there is not a word in it which will not apply with equal force to the present case. Those who advocate 1*s*. 6*d*. on the ground that it will lighten the burden of home charges might well be asked as to who it is that pays the home charges. Is it not the producer, who maintains India's favourable balance of trade and enables the Government to redeem its liabilities every year from the money realised in foreign countries in exchange for his produce? And it is he who has to accept, as a result of a higher exchange, so many fewer rupees for the produce he has to sell.

25. The effect of the high exchange upon the industries of the country has been equally pernicious. The recommendation of the Fiscal Commission led the Government to adopt a policy of protection, though the number of industries in the enjoyment of protective tariffs remains to this day hopelessly small. But even here, whatever protection the industries were getting from the higher tariffs imposed during and after the War for revenue purposes has been completely wiped away by the high exchange prevailing.

26. The reversion to 1*s*. 4*d*. would have the additional advantage of averting a considerable loss in the selling of the silver stock and facilitating the acquisition of gold, so necessary for the effective establishment of a gold standard. A higher exchange by adding to our obligation to provide gold in exchange for rupees could only augment the difficulties in our way. A 1*s*. 4*d*. exchange by raising the price of gold in this country would be inducing its present holders to release large supplies on the market and enable the Government to effect its purchases without being inconvenienced by short supplies.

27. It may be that we cannot go back to 1*s*. 4*d*. without occasioning a little upsetting of things or causing some disturbance in the world of trade. But this we cannot help, though the blame for it is entirely the Government's, whose perversity in tackling the problem has been inexcusable. They had a very good chance of fixing the rupee at 1*s*. 4*d*. by accepting the Bill which Sir Purushottamdas brought forward in the Assembly, but they did not choose to take advantage of it. And to-day, if loss or inconvenience is caused to a section of the community by the necessity of our reverting to the old rate, they must be prepared to bear all blame or reproach for it. To reach the rate recommended in this note we would suggest to Government to follow up their announcement by offering to buy unlimited quantities of gold first at 1*s*. 6*d*., and then at successively lower rates until the old rate of 1*s*. $4\frac{3}{16}$*d*. has been reached. They should also offer, when called upon to do so, to issue sterling at 1s. $3\frac{29}{32}$d. In any case, we would strongly urge upon them the adoption of a ratio whose effectiveness was borne testimony to by nearly a quarter of a century, and which is the only equitable and effective ratio which in the circumstances of the case we could decide upon.

28. In conclusion, we would like to emphasise the necessity of limiting the sales of council bills in future to the amount covered by the home charges, and to record our opinion that the Note Issue Department of the Government should be handed over to the Imperial Bank, subject to the condition, among others, that the bank may not deal in foreign exchange on its own account. We, however, refrain from going into details, as our note confines itself to a discussion of the two most important questions before the Commission.

APPENDIX 42.

Statement submitted by Mr. K. T. Shah, B.A., B.Sc., Professor of Economics, University of Bombay.

With a view to render criticism of the Indian currency system more effective and precise, specific, detailed, concrete suggestions for its reform in every branch are necessary. The following proposals for reform are given in the form of clauses of an Act of the Legislature, and their explanation given in the form of comments on each section.

PART I.

Proposals for the Reform of the Indian Currency System.

A (Draft) Act consolidating and amending the Currency Legislation in India.

Whereas it is expedient to consolidate and amend the law relating to gold, silver, bronze and nickel coinage current in the British Indian Empire; as also the law relating to the paper currency and the mint in the British Indian Empire; as also the law governing the standard of currency and the legal tender money and token coins in the said British Indian Empire, together with the law relating to the Imperial Bank of India.

It is hereby enacted as follows :—

The Currency Legislation of India is a confused mass of scattered enactments of the Indian Legislature, and the Ordinances of the Governor-General-in-Council, which have all the force of solemn legislation. During the late war the system of altering the legislation governing the currency system of the country by Executive Ordinances was carried to the most ridiculous extent under the pretext of avoiding controversial legislation in time of war. In the first years of peace the same pernicious system of carrying out the most momentous changes by means of Executive Ordinances was followed to the gravest possible prejudice of the people of India. It is, therefore, high time the fundamental principles of the law governing the currency system of this country were once for all solemnly enacted in the form of an Act of the Legislature, after due deliberation by the Legislative Body.

Besides the ordinary parts of the currency machine, reference to the Imperial Bank is introduced in the Preamble, inasmuch as it is assumed that the Government would divest itself of the functions of currency manipulator which they have so far discharged in face of strong adverse criticism.

I. This Act may be called The Indian Currency (Consolidated) Act of 1925. It extends to the whole of the Indian Empire, inclusive of British Baluchistan, Santhal Parganas, the Pargana of Spiti, and all the Native States in alliance with, and acknowledging the suzerainty, of the Government of India under the British Crown. This Act shall come into effect from the first day of January of the year One thousand nine hundred and twenty-five.

As regards the extension of this Act to the whole of the British Empire in India, including the Feudatory States, the provision is introduced as an amendment of the existing system, with a view to render the currency organisation of this country uniform. The Native States have in many respects stood apart. But the Government of India has in the past used its paramount position for introducing important financial reforms to bring about a uniform system as far as is possible under the existing conditions, notably in the abolition of the Inland Customs Line 1878-79. It is, indeed, not inconceivable that the States who still retain their "*Jus Monetendi*" should cling fondly to this one remnant of their former sovereign rights. But thanks to the growth of good sense among the rulers and their ministers, thanks to the recognition of the hardships caused to inter-state commerce by these barriers to freedom of exchange, there is no need to despair of arrangements being eventually made for a uniform currency organisation throughout the Indian Empire. Possibly the Princes may stand out for some "*Quid Pro Quo.*" If so, the Government of India is not entirely without bargaining power. By offering the States the services of the Imperial Bank free of charge; or by admitting the States to a share of the interest from the investments in the Paper Currency Reserve of the Bank; the States could be induced, without too great a show of compulsion, to abandon their separate Currency systems.

2. This Act shall not be capable of repeal or modification, except by another act of the Legislature, passed by a majority of three-fourths of the members present, and provided that a notice of at least six months shall be given.

The object of this section is obvious from the wording. We have had, during the last generation, sufficient experience of the amateur financiers of the Government of India, not to leave this most vital concern for the trade and industry of the country to the discretion of the executive authority. The provision making the repeal or modification of the Act impossible except by a legislative enactment is, though novel, and somewhat extra-constitutional, necessary to secure a proper consideration of this important branch of practical economics, as also the condition as regards a three-fourth majority in the Legislature. The defining of the root principles would avail us very little if the law is left to be altered or amended or ignored by executive authority. It must, however, be admitted that a considerable portion of the apprehensions, in which this provision takes its origin, will be rendered without foundation if the most sensitive part of the Currency machine is taken bodily out of the control of the inexperienced Government officers, and placed in charge of business men through the medium of the Imperial Bank and its Directorate.

3. In this Act, unless there is anything repugnant to the subject or context.

(*a*) " Standard Gold " means gold, nine-tenths of which is pure metal and one-tenth alloy.

(*b*) " Standard Weight " means the weight prescribed for any coin.

(*c*) " Deface," with its grammatical variations and cognate expressions, includes clipping, filing, stamping, or such other alteration of the surface of the coin, or of its shape as is readily distinguishable from the effects of reasonable wear.

(*d*) " Mint " shall be the mint at Bombay only.

(*e*) " Prescribed " includes prescribed by a rule made under this act.

(*f*) " Remedy " means variation from the standard weight and fineness prescribed by this Act for the various coins.

We have kept unchanged most of the important points in the definition section, except the definition of the " Standard of Currency " which has been left to be defined separately by a separate section. It may be noted here, however, that when the entire Currency system is being overhauled, the moment would not be inopportune to consider whether we could not introduce with advantage the decimal system in prescribing the fineness and the weight of the coins. There can be no question that the decimal system would be much the more suitable, as much on account of the ease of calculation, as because it is the one adopted in most of the leading continental countries. But if the Currency organisation of the British Empire is sought to be rendered uniform, it might not do for any single member of the Empire to make this great change independently. There has been an agitation in the United Kingdom for the decimalisation of Weights and Measures as well as of the Currency for now well over two generations. But, judging from the Report of the Committee appointed to consider the Commercial and Industrial Policy after the War, it would seem that the bulk of the business world in Britain still inclines to maintain the *status quo*.

The reasons given there do not seem to us to be quite strong enough to outweigh the scientific simplicity of the proposed change. It rests, moreover, on an assumption which if true so far, is rapidly being negatived. The sovereign is not quite the medium of international payments, since London is gradually losing her pre-eminence as the financial centre of the world. If that centre comes to be definitely located at New York, the rejection of the proposal for the assimilation of the British Currency system with the American system may quite possibly appear as a short-sighted piece of the usual insular conservatism of the British people. I have, accordingly, introduced a change in this legislation to decimalise the Indian currency system.

For a proper, smooth working of the Currency system sought to be established by this Legislation, it is imperative that India should have an independent Mint of her own. In view of the commercial importance of Bombay, and the administrative convenience of centralising coinage operations, I have proposed that the Mint be located at Bombay only.

4. The currency system in India shall be organised on the basis of Gold standard.

We regard this as the most important of the changes proposed, which has, therefore, been stated in a separate section by itself to guard against a possible obscurity. The entire system must be framed in accordance with this basic idea.

5. The Standard of Currency shall be the mohur containing 120·000 grains troy of gold nine-tenths fine, i.e., containing 108 grains troy of pure gold and 12 grains troy of alloy.

6. These coins shall be coined free of any charge whatsoever at the mint in India at the rate of 4·4 mohurs per ounce of fine gold.

7. The Mint shall not ordinarily take more than a month for coining the gold tendered at the Mint for that purpose.

8. The Imperial Bank of India may, as hereinafter provided, receive gold bullion, and give in exchange gold coin or currency notes at the rate of 4·4 mohurs for every ounce of pure gold.

9. Subject to the provisions of this Act in that behalf contained, the discretion of the Bank aforesaid in offering notes or gold coin in exchange for the bullion tendered for conversion shall be absolute.

10. The Mint in India shall not coin any other gold coin except the mohur as provided in this Act.

11. All other gold coins shall be receivable at the Mint, or by the Imperial Bank of India, as bullion, and shall be converted on demand by the aforesaid Bank at the rate mentioned above.

The necessity for the Gold Standard and Gold Currency being premised, we must next consider why it was that this very highly desirable consummation was not realised in practice, however much it could be expected from the recommendations of the Fowler Committee, as well as from the attitude of the Government of India. As already remarked, the system which arose out of the recommendations of the Fowler Committee and the steps taken to give effect to those recommendations came gradually to be the system which Mr. Lindsay had put forward. It was felt that the attempt to introduce a gold currency all at once would be frustrated: as much

because of the difficulty of finding an indefinite quantity of gold coin to meet possible demands for conversion, as from the conservative habits of the people, who, suffering from an unjust loss through the depreciation of their silver possessions, would look askance at the new system for some time. There was also the danger of possible hoarding of gold to be considered. The only source of gold, open to the Government of India, was the profit from the silver coinage, apart from borrowing abroad. But the profit would take some time accumulating before it could be expected to suffice for a possible demand. If a gold currency were honestly adopted, the rupee coinage would have to be either limited on the analogy of the French Currency; or stopped altogether by the discontinuance of the rupee as the unlimited legal tender. Under either of these two alternatives, the possibility of building up a good fund of gold would be very scarce. In the meanwhile the real difficulty, which had forced the attention of the Government of India to the currency question at all, could be met as well by the Lindsay scheme. The rupee was to be fixed in its relation to the pound sterling. The English gold coins were declared legal tender, Government pledging itself to give rupees or notes against gold coin tendered them at the fixed rate. For all practical purposes there was Gold Standard; and, when the Government undertook to maintain this fixed rate by the mechanism of the "Councils" and the "Reverse Councils," the foreign trader in India as well as the foreign public servant felt that all that they two could desire had been achieved. The Government had to obtain funds in England to meet their sterling obligations. With a fixed rate of exchange, the element of uncertainty, which had hitherto cramped the Finance Minister in India, disappeared. The necessary funds could be procured in England by offering to sell, from week to week, a stated amount of Bills on the Government of India payable in the local Indian currency in India, against which the money would be received in sterling in England. As these Bills sold by the Secretary of State for India in Council (and therefore called "Councils" in short) were offered at a rate appreciably lower than what would be required, if gold had to be shipped to India by those who had to pay for the Indian produce in India, the authorities in England soon came to realise the double advantage concealed in this procedure. As the balance of trade in favour of India has almost always been in excess of her obligations to England, the "Councils," judiciously managed, could be made to afford assistance to trade, at the same time that the flow of gold to India would be checked, and a decent profit obtained by the Secretary of State. The gold due to India would thus accumulate in England. On the assumption that London was the central money-market of the world, where India would have to make payments in the event of the balance of trade going against her; and where she would have to purchase silver for her currency, it was felt that such a centralisation would help to save India the cost of transport either way. The logical conclusion of such a policy would be that these "Councils" should be sold at the fixed rate without limit, i.e., to the full extent of the balance of trade in favour of India. But obviously this could not always be attained, as there was a definite limit to the sales of the "Councils" in the available balance of currency in India. The only way in which currency could be increased, and the limit to the Council sales raised, was the coining of new rupees and the increase in the Note circulation. The latter, under the principle of fixed Reserve, which was the guiding feature before the War, could not be added to. The former, though the Government added considerably to the rupee coinage in the 15 years immediately preceding the last War, was also incapable of an indefinite expansion owing to the dread of a rise in the price of silver by too great a demand and the consequent disappearance of the profit of coinage.

The new system, christened as the Gold Exchange Standard, was not the conscious creation of the Government of India, but rather the outcome of circumstances which showed more and more clearly, as time went on, the advantages of the system to the Government. The large balances that came to be maintained in England as the result of the working of this system came to be considered a legitimate perquisite of the London bankers, the amount of gold thus saved and kept in the London market being quite a respectable quantity. The purchase of silver, the obvious excuse for keeping the gold belonging to India in a foreign centre, was negotiated so as to make the Indian Government an easy prey to the ring of silver speculators in England and America. The Indian critics seem to have confined their opposition to the system, as established after 1900, to the unquestioned loss suffered by the Indian peasant in the deprecation of his silver hoards. The later complaints about an unfair treatment of Indian enterprise, owing to the unprofitable policy of the Government in locking up considerable liquid capital in a distant centre, were the result of practical observations of actual hardships rather than a consequence of the realisation of the theoretical unsoundness of the whole system. The mistake was made at the very commencement by permitting the assumption that India was a debtor country as against England, which was a creditor country in the markets of the world; and that therefore, the English system could not be suitable to India. If we consider the figures of the Trade Balances, India is even more a creditor country than England. And even making allowance for the debit items in the shape of the "Invisible Imports," making up the Home Charges, India still was a creditor in international exchange, as her Exports of merchandise showed a balance in her favour, even after the Home Charges had been accounted for. There was, ordinarily speaking, no great likelihood of an adverse balance which would have to be settled by an export of gold from India any more than it was the case with England. Indeed, on a strict comparison of the items which enter into the International Balance of Accounts, it would rather appear as though the United Kingdom was in a relatively weaker position than India, since the invisible exports of England would suffer in a world crisis, while her imports would, if anything, show an increase. The system, therefore, as it was developed in the fifteen years immediately preceding the War, though it worked pretty smoothly in ordinary times, was bound to break down in a crisis.

Once it was decided that India was not to receive a gold standard, it was easy to explain the reasons why it would not be in the interests of India to demand it. The arguments against the introduction of a gold currency and a gold mint, as the necessary conditions of a true gold standard, may be thus summed up, on the authority of the Chamberlain Commission of 1913-14: (1) If gold were used actually for currency purposes, India might not, it was argued, be able in a time of crisis, to find sufficient quantities of gold for export to settle her unfavourable balance. (2) The poverty of the Indian masses, and the smallness of the average transaction of exchange

in India, would render gold coin unsuitable for every day purposes. Gold coins put into circulation would be most probably driven into the hands of bullion dealers. (3) The institution of a gold currency was likely to be most difficult for India, as she had no gold production at home at all comparable to the possible demand for it, while by the attempt to obtain gold from abroad by melting rupees the price of gold in terms of silver would suddenly go up to the prejudice of India.

But these are mutually contradictory, and they all rest on a fundamentally erroneous view of India's needs. India need not fear, in normal years, any considerable adverse balance. The fear of a financial crisis, though wholesome, is exaggerted out of all proportion when it is made the excuse of shutting India completely from her share of the world's gold production. Taking the figures since 1890 we find our exports up to 1919-20 never falling below our imports, in spite of wars and famines. But for this strength, India would not have succeeded in financing to the best of her ability the heavy expenditure on account of the British Government during the War, besides subscribing heavily to the various war loans of her own Government. Famine, indeed, is not yet an impossible contingency in India; but a single year of famine and its adverse balance may be met easily from Government reserves of gold in the paper currency, or in their cash balances. And if, unfortunately, there is a series of two or three years of continued famine—a most unlikely assumption—India could hope to borrow on terms by no means disadvantageous, thanks to her connection with the British Empire, and thus liquidate her foreign obligations. The danger of gold in circulation being hoarded is not peculiar to India, at least in days of world crisis. Against this known danger, it is not impossible to provide. Only, the remedy is not a negation of the first axiom of monetary science; but rather a better organised banking system. Unless we have a sound system of credit organisation, we shall be no nearer the freedom from the danger of hoarding whether we have a traditional gold standard, or the scientific Exchange Standard. We have elsewhere in this Act provided for a Bank which in our opinion would meet this criticism as nearly as possible.

If the second argument is true the first loses a good deal of its importance. The people are too poor in India to be able to hoard gold, since 80 per cent. of the population are barely able to live. It seems inconsistent to say that the people of India are too poor to use gold, and yet express the apprehension that there would be hoarding merely because the currency contains a few gold coins Of course, a very small number of bullion dealers may hoard up; but *ex-hypothesi* these men would be too shrewd to miss a fine opportunity for export in the hour of crisis. There cannot, then, be much danger of hoarding if the bulk of the gold remains in such competent hands. No doubt, there is a good deal of such hoarding in India. But the explanation, in our opinion, is that there is yet no confidence in the currency policy of India. Until quite recently (and on account purely of war conditions even then), the rupee was notoriously overvalued. The currency notes were payable as of right only in silver rupees at this overvalued rate. Under the circumstances, the Indian trader or cultivator acts much as his compeer anywhere else in the world would do. He takes gold which seems the most stable in value. Finally, the proposal to have a gold standard does not necessarily spell the abolition of all other coins, *ipso facto*. India will continue to absorb silver, because silver would still form the bulk of the currency for every day transactions, even though the legal tender of silver coins be limited. By judicious banking arrangement, we may succeed in avoiding the danger of hoarding; and yet have a currency system which ensures public confidence without exposing the Government to such shifts as had to be resorted to recently.

As for the last argument, it is true the local gold production in India is barely one quarter of the requirements, if even so much. But thanks to the steady balance in favour of India, we need not be afraid of not finding gold enough to carry out the changes proposed. If the system of unlimited sale of Councils be omitted, the annual flow of gold into India would be about 30 million sterling. For immediate need we have the various reserves to rely on for facilitating the introduction of a gold currency.

The Exchange standard being ill-conceived and unacceptable, and the return to a silver standard being now too late to think of, the only alternative is to have a clear gold standard, in name as well as in fact. We have, therefore, laid down the Mohur as the standard of currency. It would probably be too large for internal circulation, except in large transactions, where, as provided for elsewhere in this Act, the improved banking system would help to economise the use of gold coins. The suggestion that India should be educated in the use of cheap forms of the medium of exchange would be easily carried out by an increase in the notes, which, if made payable in gold as suggested here, will inspire greater confidence than has been the case hitherto. With a strong gold reserve in the country, naturally resulting from the use of gold as currency, husbanded by the help of a proper banking system, we shall provide the best remedy against the periodical troubles in exchange. This gold in circulation would not, as was assumed by the Commission of 1913-14, be at the expense of either rupees or notes, but will rather be an addition to the centralised Bank Reserve, readily mobilised against possible contingencies, and circulating only in so far as the country does not take to banking habits, or in parts away from the influence of banks. The ultimate support of exchange must be the kind of currency in general circulation. Even the Bank reserves must depend on that. We would be placing an unjustifiable premium on the banker's dishonesty, if we ask him to keep his reserve in gold even though the currency consists of silver, and the usual demands of his customers are for silver. Gold in circulation in India, under existing conditions, can only displace rupees, as the notes would be more convenient than rupees. Above all, the gold standard and gold currency will help to stabilise prices and avoid speculation, which is the most desirable thing for India. The risks of depreciation to capital investment would disappear, so that our industries will have the much needed stream to fructify them. The need to maintain large balances in England, which is such a prominent feature of the existing system, will also disappear, and our money market be freed from its periodical stringency.

The provisions of ss. 5-11 do not need any elaborate justification. In the main they are consequential, following as a matter of course on the adoption of the principle contained in the governing s. 4. The provision to oblige the Bank to issue coin or notes in exchange of bullion is based on the English analogy, though the time allowed to the Mint is greater than in England,

and the consequent saving in interest to the bullion tenderer would be greater in this country. We have not sanctioned the coinage of half-mohurs as the coin is admitted to be too small to be convenient for carrying about. The discretion granted under this Act to the Imperial Bank to offer coin or notes in exchange for the gold bullion will be explained later.

12. The Mint shall coin, for issue under the authority of this Act, two silver coins, called the rupee and the half-rupee.

13. The standard weight of the rupee shall be one hundred and eighty grains troy, and its standard fineness shall be nine-tenths, viz., one hundred and sixty-two grains of fine silver, and one-tenth or eighteen grains of alloy.

14. The rupee shall be taken as equivalent to one-fifteenth of the mohur. The half-rupee shall be half in weight of the rupee.

The traditional weight of silver in the rupee has been practically retained as a concession to the sentiments or prejudices of the people of India. Scientifically the proposal is indefensible, and economically it is wasteful to leave so much silver in a token coin only.

15. No other silver coins shall be coined at the Mint under the authority of this Act for purposes of circulation in the Indian Empire as currency.

16. The smaller coins, viz., the quarter-rupee, and the one-eighth of a rupee shall be demonetised. They shall be received at the Mint, or at the Imperial Bank, within six months after the passing of this Act, for exchange against full rupees, half-rupees, currency notes, or gold, to the full extent of the nominal value within the legal tender limits as prescribed by this Act.

17. The gold coin, prescribed as standard of currency by this Act, shall be a full legal tender in payment or on account, provided that the coin (*a*) has not lost in weight so as to be more than ·05 per cent. below the standard weight, and (*b*) has not been defaced.

18. The silver rupee shall be a legal tender in payment or on account for sums not exceeding one hundred and fifty rupees at one time, provided that the coin (*a*) has not lost in weight so as to be more than one per cent. below standard weight, and (*b*) has not been defaced.

The main points which call for any comment in the foregoing sections are these:

(*a*) The general demonetisation of Silver.
(*b*) The fixing of the ratio between the Standard of Currency and the Rupee, and
(*c*) The limitation of the Rupee as legal tender.

The third follows as a natural consequence of the first; so that really the explanation and comment are needed for the first two.

Twenty years ago the people who demanded a pure silver Standard for India had no doubt the interests of the people as their main excuse. The events of the last fifty years, however, and more particularly the change of Standard involved in the legislation and orders consequent upon the Fowler Committee, render any reopening of the silver controversy unprofitable. The people of India have been made to bear the loss involved, and, in the next twenty years, we may assume the relations have been so adjusted as to allow for the change and to distribute the loss. To return to the pure Silver Standard would be now fraught with the most serious danger to the trade and industry of India. We have, accordingly, left this alternative entirely out of our Currency System, even if we believed that silver was the preferable medium for settling international indebtedness. The apparent emphasis on the foreign trade here should not be construed to mean an indifference to the needs of the interprovincial trade of India, as proper provisions will be found elsewhere in this Act.

But we cannot ignore the fact that Silver still constitutes the most important portion of our Currency. We must, therefore, take means to safeguard the interests of the silver holders in a way which would not interfere with our main principle underlying these changes.

At the time of the Chamberlain Report, as already observed, nobody seems to have taken into consideration the rise of silver in relation to gold. It was thought that by offering to sell gold at a certain fixed minimum rate in the event of the balance of trade being against India, and by selling Councils without limit in ordinary times, the Exchange Standard would be fully maintained. But, during the War, conditions on which the safe working of the new arrangement depended were revolutionised. After a first few months of panic the trade of India recovered with a bound. Prices soared like rockets, and the balance began to pile up in favour of India. At the same time the converse stream of payments due from India dried up. The Home Charges were more than swallowed up in the expenditure which the Government of India undertook on behalf of the Home Government which was recoverable in England. The remittances of English merchants in India were frightened into complete stoppage in view of the high taxation of income and property in the United Kingdom. The ordinary alternative of shipping specie to India was not to be thought of in face of the jealousy with which all the belligerents and the neutrals were guarding their store of gold and silver. The obvious alternative of tiding over the difficulty by raising loans in India on the credit of the British Government was not thought of, though exactly the same course was followed to steady the Anglo-American exchange from the very first year of the War. India was never prepared to receive her favourable trade balance in any but the most primitive form of specie settlement, and she could not of her own accord turn suddenly to investing abroad in years of a world-war. The authorities, while blaming India for her antiquated and unprofitable methods of receiving her trade balance, did nothing to work out an alternative; while they went on perpetuating the vicious circle by selling Councils without limit and thereby creating a demand of silver against themselves.

The result could have been foretold by the merest tyro. The price of silver went up beyond all previous records. War conditions had prevented production being kept up to the highest pitch, while a serious demand had set in for more silver to be used for small change in all nations. China was also a heavy buyer in the later years of the War, though normally she has to export specie to settle the adverse trade balance. The Indian demand on the top of all raised the price of silver beyond all previous record. The Government of India had invested their coin or bullion reserves to the hilt, so that there was no means of meeting the demands for rupees that set in except by the mintage of more rupees, or by the issue of additional notes. The note circulation was manipulated by administrative ordinances permitting the raising of the invested or fiduciary reserve, and allowing such increased fiduciary portion of the note-issue to be invested in the rapidly depreciating British Government securities. The dependance of the addition notes was not without its dangers in a country like India, with its government conducted by an alien bureaucracy, in which the people were losing their faith, and with the masses of the people being too illiterate to understand the occasion for the flood of paper money thrown upon them. The Government felt the danger of inconvertibility to be a much greater evil than the loss of several million sterling involved in the coinage of rupees at the high price of silver. They could not, also, go on indefinitely coining rupees irrespective of the price of silver, thought the business-world, had for nearly twenty years, acted on the assumption that Government would be willing to give rupees at the fixed rate. They had acquiesced in the artificially high rate of the rupee in 1899, and the Indian people had been made to bear the loss involved in the change of standard, on the clear understanding that Government would give the local currency indefinitely in exchange for the international medium of exchange. It was quite true that when the rate was fixed, no one had in view the situation as it developed after 1916. But it was none the less a breach of public faith on the part of the Government of India to raise the Exchange value of the rupee to escape the loss involved.

The raising of the exchange was brought about by the Government of India forcing the market up against themselves. It could have been easily avoided, if Government had allowed the export of silver; and if, since they were doing so much of the country's legitimate banking business, they had encouraged habits of receiving the favourable trade balance in more economical forms. As it was, the new Committee of 1919 had to be specially instructed to consider the relation of the gold and silver in view of the new conditions.

"And to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintain a satisfactory monetary circulation, and to ensuring a *stable gold exchange standard.*"

The Committee, therefore, started to consider the factors which had caused this phenominal rise in the value of silver and to suggest a new ratio. They came to the conclusion that the price of silver had been raised by the falling of the world production side by side with a great increase in the demand for the white metal. The fall in the production was due, they thought, to war conditions of high prices of accessories for mining, as well as owing to the unsettled conditions in Mexico. After the War, the majority of the Committee felt, the production might be increased, but the demand would remain as great as ever. Hence they suggested the ratio of £1 = Rs. 10. They did not consider, what has since become evident, and could even then have been foreseen, that the war conditions were passing away, and prices might any day tumble down. They took no account of the possible increase in the output by the restoration of normal conditions in Mexico, and they failed entirely to consider the probable fall in demand. The United States Government, was bound to replace the depleted Dollar Reserve at a guaranteed minimum price of a dollar per fine oz; but that guarantee applies only to silver produced in the States. The very great chances of the reduction of demand for coinage purposes by European nations on their finding even silver to be a too costly and wasteful medium of exchange was also not sufficiently considered. Under the circumstances, the Committee's finding on the matter was open to the most serious doubts. We have, therefore, suggested above a much lower rate, the old rate of Rs. 15=£1. This has not only the convenience of being familiar, as well as the advantage of being more durable; it is also the rate which would cause the least disturbance in the mercantile world.

The adoption of a fixed rate between silver and gold coins is, indeed, in the nature of life-blood to the gold exchange standard; but not so indispensable to the principle on which the suggestions contained here are based. We hold that the Gold Exchange Standard, in spite of all the theoretical advantages of economy and efficiency that can be claimed for it, is unworkable in practice. Its main, essential, mechanism has in India broken down twice in two crises, though for different reasons. In the special circumstances of India, with its Government in the hands of an absolute foreign bureaucracy, the system is all the more unacceptable, as it opens up infinite possibilities of suspicions as to the motives in particular moves in the management of the currency system in moments of crisis, not to mention the special objection on the score of the incompetence of the Civil Service to handle such financial questions. The location of the Reserves of large proportion in a foreign centre, however conducive to economy in normal times, involves the serious danger of being inaccessible in the hour of crisis affecting the financial centre. The country with a Gold Exchange Standard becomes exposed to all international crises, owing to the shortsighted desire for economy in the ordinary settlement of trade balance abroad. Supposing that it cost, in normal times ½*d.* to send a pound of gold to India from England, the saving involved in preventing the shipment of £5,000,000 to India would amount to roughly £10,000. But the loss to the country in the hour of crisis would be far more considerable if the authority, pledging its credit to the maintenance of the fixed exchange, is unable to do so. The rise in the Exchange value of the rupee to 2*s.* 8*d.* would have involved a loss to the people of India, on a total export trade of £250 million of about 187½ crores of rupees. It is also exposed to the other danger: that by keeping habitually large sums in a foreign centre, the country not only becomes a prey to the machinations of bullion speculators in the international markets, but also begins to invest in the securities of that foreign country to the prejudice of the home trade and industry. In a moment of international crisis these investments are liable to heavy depreciation, and are often unsaleable precisely when the funds are most urgently needed to support national credit

All these evils were intensified in the particular circumstances of India by the unavoidable infection of politics into economic questions. We have consequently utterly discarded the Gold Exchange in principle as well as in practice; and have framed our recommendations so as to render the entire machinery of the exchange standard obsolete. We are, consequently, not much concerned in the learning bestowed on the question of a stable exchange, though we must protest against the conclusion arrived at by the majority of the Babington-Smith Committee as to the effects of a high exchange on the trade and industry of India. Proceeding on the broad general principle that: "Stability (of exchange) is an important facility rather than an essential condition" for the current operations of trade, the Commission have no difficulty in brusquely setting aside the great danger involved in too frequent an interference with the rate of exchange. It may be that the ordinary small fluctuations are included in the risks incident to business, and that the bankers can help to minimise those risks by "Hedging"; it may be that the present condition of world finance will make it exceedingly difficult for India to obtain foreign capital, and consequently the need for stability to attract outside capital may not be so great. But when all allowance is made for a new rate, and that a high one, the fact remains that such changes introduce a most unwelcome element of speculation which prevent trade and industry from following their normal channels. But when the Commission go on to consider the effect of high exchange on the price level, they are utterly, unspeakably wrong. The figures before them showed unmistakeably that while the price of the articles imported had risen between 1910 and 1918 by 265 per cent., those of exported articles rose only by 157 per cent. The Indian produce was not fetching the same high price as the foreign produce had to be paid for in Indian produce. And when we say that the Indian exporter suffers by this rise, we mean not the wholesale merchant, who is too shrewd not to avail himself of the "Hedging" facilities offered by his banker and thus reduce his risk, but the poor country farmer, who has no means of protecting himself, who probably has already sold his crops in advance to the village money-lender, from whom there could be expected no mercy if the prices are kept down by official interference for trade regulation. The saving in the Home Charges would be a material consideration, perhaps, if the Indian people had the control of their finances; and were able to employ the funds saved by this means in the remission of taxation, or employment in industry. On the other hand the high exchange would mean a bonus of 50 per cent. to the foreign importer, and the consequent discouragement of Indian industry in all matters where India has to face a killing competition in her own market. We are, therefore, unable to concur in the views propounded by the majority report touching the theoretical as well as the practical aspect of the effect of high Exchange on a country's trade and industry, and still less can we accept the reasoning under the peculiar circumstances of India.

It follows, then, that the fixing of a ratio between the Standard of currency and the silver coins, which must for a long time remain in circulation in this country, and form a respectable proportion of the total volume of currency, is a problem rather of local than of international importance. To allow silver to remain unlimited legal tender at the same time that its price as currency had been artificially fixed; and its coins reduced to the position of tokens, is an impossible state of things, which, if not corrected, would lead to worse evils than those we have passed through. The Government of India were, if we judge them charitably, led to acquiesce in such an anomalous arrangement by the apprehension of their inability to supply gold coins in exchange for large, indefinite, amounts of silver in circulation at the time of inaugerating a change in the standard, as also because of the *a priori* assumption that the Indian people would prove too conservative peacefully to allow the change to be accomplished. But there was, and is, no real danger of the Treasury or the Currency Offices being deluged with silver, especially if the Government would provide more suitable alternatives in the form of gold notes or certificates; or, better still, they would so improve our banking arrangements as to leave this tool of trade and industry in the hands of those who best understand them. The danger of too heavy a demand for silver coins to be changed into gold can be averted by making the rupee limited legal tender and thus restricting its use. The amount proposed here as the maximum limit of legal tender in respect of silver coins is at once large enough to avoid inconvenience or injustice to the smaller producers and traders, and small enough to bring about a discontinuance of silver for all larger transactions. Its place should, in our opinion, be taken, not by the costly and wasteful gold currency, but by paper convertible in gold, or still better, by improved bank facilities and bank transfers, somewhat on the same lines as guided the "Giro" system of payments in Germany before the War. I have elaborated these suggestions more fully later on. Here, I need only observe that, under the scheme proposed, all the advantages of economy, elasticity, and convenience in transport, which are claimed on behalf of the exchange standard, will be realised by the suggestion of limiting the legal tender of silver coins.

19. The Mint in India shall not be open to the public for the coinage of any but gold coins authorised under this Act.

20. In the making of gold and silver coins a remedy shall be allowed of an amount not exceeding the following, namely :—

Coin.	*Remedy in weight.*	*Remedy in Fineness.*
Mohur	Five-thousandths.	Two-thousandths.
Rupee	Five-thousandths.	Two-thousandths.

The closure of the mint to the coinage of any other metal save gold follows inevitably from our general principle of making silver a legal tender for only limited quantities. So long as silver coins are given artificial values it will be best to prevent their unlimited coinage. The free mint for gold coinage is similarly a corrollary from our guiding principle of establishing a real gold standard in this land.

It will be noticed that the successful working of all these suggestions depends on the constitution of proper banking facilities for the mass of the people, and not only, as is the case now, for the foreign trader or for the commercial magnates known as "Shroffs." We shall have, therefore, to defer to the later sections dealing with the organisation of the Imperial Bank of India for a further elaboration of the arrangements proposed here.

21. The following nickel coins shall be coined at the Mint for issue under the authority of this Act, viz., a four-anna piece, a two-anna piece, and a one-anna piece. No other nickel coins shall be coined at the Mint.

22. The standard weight of the four-anna piece shall be seventy-five grains troy, and of the two-anna piece, sixty grains troy. The standard weight of the one-anna piece shall be fifty grains troy.

23. In the making of the nickel coins a remedy shall be allowed of an amount not exceeding one-fiftieth of the weight.

24. The following bronze coins only shall be coined at the Mint for issue under the authority of this Act, namely :—(*a*) A pice or quarter-anna; (*b*) a pie or one-third of a pice.

25. The standard weight of the pice shall be seventy-five grains troy, and the pie shall be of proportionate weight.

26. The bronze coins shall be coined from a mixed metal consisting of copper, tin and zinc, in the proportions as now obtaining.

27. In the making of the bronze coins a remedy shall be allowed not exceeding one-fortieth of the weight.

28. The nickel coins, specified in Section 21 of this Act, shall be legal tender in payment or on account as follows, namely :—(*a*) The four-anna piece for a sum not exceeding five rupees. (*b*) The two-anna piece for a sum not exceeding two rupees. (*c*) The one-anna piece for a sum not exceeding one rupee.

29. The bronze coins specified in Section 24 of this Act shall be legal tender in payment or on account for a sum not exceeding one rupee at the rate of sixty-four pice for the rupee, or one hundred and ninety-two pies for the rupee.

30. The Governor-General in Council may, by notification published in the Gazette of India, direct the coinage and issue of all coins referred to in the several preceding sections, and determine the dimensions of and designs for these several coins: Provided that the dimensions and design of the standard of currency, the gold mohur shall be such as to give an effigy of the reigning British Sovereign, with his name and style, on the obverse, and the designation of the coin around the rim on the reverse, together with a lotus in the centre of the reverse.

31. Until the Governor-General in Council otherwise determines by notification under Section 30 of this Act the dimensions and design on the silver rupee shall be those prescribed for the Government rupee under the Indian Coinage Act, 1870, and that the same shall be observed by the Mint at the time of the commence-of this Act.

32. For the other coins issued under the authority of this Act, the dimensions and designs shall be those now in use for the similar coins issued under the Indian Coinage Act of 1870, provided that the dimensions and design on the new nickel coins shall be those now issued under the Acts XVII and XXI of 1835, XXI of 1838, XXII of 1844, XIII of 1868, and the Indian Coinage Act of 1870, and declared by those Acts to be legal tender, provided that the Governor-General in Council may, by proclamation in the Gazette of India, declare those coins to be no legal tender after a specified date before which they may be received at the Mint, or at the Imperial Bank of India, to be converted into an equal number of the like new coins issued under the authority of this Act.

33. Subject to the provisions of this Act, no changes shall be made in the currency organisation established by and under the authority of this Act by any administrative action of the Governor-General in Council.

On our guiding basis of a complete demonetisation of silver, the reduction of the silver coins of a denomination below the rupee and the half-rupee is a measure dictated as much in the interests of economy as of convenience in computation. It follows that we cannot allow the baser substitute to be legal tender to an unlimited amount, or even to the extent to which the rupee is allowed to be legal tender under the authority of this Act. The introduction of ample small change, which, it may be observed in passing, is an essential condition for the success of the kind of banking we have in view, will not be feasible if we depend on the relatively costly white metal for our small change. We have, therefore, abolished all smaller silver coin, permitting, however, those already in circulation to remain legal tender to the extent that coins of similar denomination issued under the authority of this Act are, by this Act, allowed to be legal tender. Provision has also been made for their redemption in case their simultaneous circulation causes confusion.

The weight of the nickel coins has been altered with a view to permit of their being made of a size convenient for every day transactions. One of the objections that could be urged against the smaller silver coins hitherto in circulation was their extremely small size and the consequent liability to be lost. Since in the nickel coinage the question of cost will not be very important, we have allowed a greater weight to facilitate the larger size. The weight here allowed, it may also be noted, differs slightly from the weight now given to such coins as have been in circulation for the last two or three years; but this is a matter of minor detail, to which, if the principle of securing abundant and cheap supply of small change is accepted, we would attach no great importance. In the conditions of India as we now know them, it is unsafe to trust for small change to the notes of a reduced denomination, and if small change is inaccessible, the best currency system and the best banking accessories would be upset.

No change has been proposed in the denomination, the design and the dimensions of the silver and nickel coins, power being left to the Governor-General-in-Council to fix the design, &c. We may note, however, that our age will go down to history as one of gross materialism, unrelieved by any sense of Art or Beauty as evidenced by the tools of our materialism. The coins, instead of being the medals or symbols of our history, are merely the most workmanlike tools of commerce, from which it is considered advisable to vanish all trace of national vanity. The general tenour of the suggestions in this mongraph takes too pronounced a materialistic view for me to stand up, with any degree of confidence, as a champion of aestheticism. I, therefore merely bring out this defect and leave it to others to correct if possible.

34. The profits resulting from the coinage of silver, nickel, and bronze coins shall be applied in the following order, viz.:—(*a*) To the upkeep of the Mint establishment. (*b*) To the purchase of bullion for inferior coinage below the standard of currency. (*c*) To a Reserve Fund, if the profits are in excess of the Mint expenditure and the bullion purchases, provided that the Reserve Fund so constituted shall be used to support the paper currency in case of an unexpected, heavy demand for conversion.

35. The Reserve Fund mentioned in clause (*c*) of the Section 39 shall be kept in gold; and shall be entrusted to the Imperial Bank of India, for safe custody on account of the Mint, provided that the said Bank shall have authority to use that Fund to meet a demand for the conversion of notes in the event of the ordinary resources at the disposal of the said Bank being insufficient for the purpose.

36. The Bank shall pay interest at the rate of 5 per cent. per annum for the use of the Fund for the purpose stated in this Act in the next preceding section, and during the period that the Fund shall not have been replaced by the Bank.

The use of the profits of coinage was a most important question under the regime of the Gold Exchange standard. The Fowler Committee had recommended that the profits arising out of the silver coinage—a very considerable amount in those days—should be used to form a reserve to be eventually utilised for the purpose of introducing a Gold Currency in India. But the Government of India were just then faced with heavy Famine Expenditure, and used it accordingly in relieving the Famine distress. It was obviously an unjust use. When the utility of such a reserve in meeting their obligations in England was perceived by the Government, they suffered the balance of the reserve to accumulate in England, particularly as the silver, from the coinage of which the profits arose, had to be purchased in gold in England. The normal instinct of a commercial people then asserted itself. The Reserve which was accumulating rapidly every year, was felt to be too large, and consequently a small portion of it was invested. The interest obtained became too tempting to allow the new policy to be questioned; and hence the ratio of the invested portion to the portion held in gold began to increase alarmingly. The entire reserve was nominally kept in gold in England, but a great portion of it was invested in English securities. The Mackay Committee of 1907-08 even proposed, not without a show of reason, that a part of the reserve may be used to avoid further debt, and be used for railway construction. Whatever may be said for this proposal on the ground of economy, it was obviously inconsistent with the original object of the Fund. The crisis of 1907 showed the error and the danger of too large a portion being invested which could not be easily realised in an hour when the exchange needed supporting. The Mackay idea was, therefore, dropped; and the reserve, called now the Gold Standard Reserve, came to be held in gold and gold securities, its object being laid down as the support of exchange in the hour of danger, by the Chamberlain Commission 1913-14. But the War swallowed the whole of the reserve which had been built up with some difficulty, and turned it almost entirely into securities, which were rapidly depreciating in value. Whatever, therefore, may be regarded to have been the object of this Reserve—whether support of Exchange, or facilitation of gold currency—after the commencement of the War, neither was capable of realisation. During the first year of the peace the exchange troubles mainly arose, in my opinion, owing to the gold resources of India having been dissipated in the zeal to earn interest, not to put any but the most charitable construction on the events of the War period. Wiser by this sad experience, we have suggested that the Reserve, if at all one arises under our scheme, and is in excess of the requirements of the Mint, shall be kept *in gold*, and managed by the Imperial Bank of India for a set purpose stated in the Act. I do think that there is much chance of any considerable sum accruing owing to the demonetisation of silver. But in case a surplus arises from the coinage operations, the best use for it, in the interests of the nation, would be to regard it as a second line of defence for the Paper Currency. It must also be noted, that I have made this an extraordinary, not an ordinary, use of the Reserve, against which the Bank would ordinarily issue no notes.

Under this scheme all discussion about the nature, object and use of the Gold Standard Reserve ceases to be profitable. I have definitely accepted the Gold Standard, with a free Gold Mint. The principle contained in section 36 needed an unambiguous declaration in face of the

proneness of impecunious financiers to treat all such profits as so much windfall. It is a function of bankers to regulate exchange under a sound currency system, and I have accordingly made it over to the Bank in no ambiguous terms. The Government may henceforth sleep in peace as far as the Exchange is concerned, they having merely to explain to the bank their requirements in England and provide the necessary funds for the purpose. It is to be hoped those requirements will be progressively reduced. The Bank will do all the rest for them.

37. Where any gold or silver coin, which has been coined and is issued under the authority of this Act, is tendered to any person authorised by the Governor-General in Council or by the Local Government to act under this Act, and such person has reason to believe that the coin (*a*) has been diminished in weight so as to be more than such percentage below the standard weight as may be prescribed as the limit of reasonable wear, or (*b*) has been defaced, he shall, by himself or another, cut or break the coin.

38. A person cutting or breaking a coin under the provision of clause (*a*) of the next preceding section, shall observe the following procedure, namely :—(*a*) If the coin has been diminished in weight so as to be more than such percentage below standard weight as may be prescribed as the limit of reasonable wear, but not more than such further percentage in this behalf, he shall either return the coin, or, if such persons so request, shall receive and pay for the coin at such rates as may be prescribed in this behalf; and (*b*) if the coin has been diminished in weight so as to be more than such further percentage below standard weight so prescribed as aforesaid, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking.

39. A person cutting or breaking a coin under the provision of clause (*a*) of the next proceeding section shall observe the following procedure, namely :—(*a*) If such person has reason to believe that the coin has been fraudulently defaced, he shall return the pieces to the person tendering the coin, who shall bear the loss caused by such cutting or breaking. (*b*) If such person has not reason to believe that the coin has been fraudulently defaced, he shall receive and pay for the coin at its nominal value.

40. If a coin is liable to be cut or broken under the provisions of both clauses of Section 38 of this Act, the person cutting or breaking the coin shall deal with it (*a*) if he has reason to believe that the coin has been fraudulently defaced under clause (*a*) of Section 43; and (*b*) in other cases under Section 44 of this Act.

41. Where any gold or silver coin, purporting to be coined or issued under the authority of this Act, is tendered to any person authorised by the Governor-General in Council, or by a Local Government, to act under this Act, and such person has reason to believe that the coin is counterfeit, he shall, by himself or another, cut or break the coin, and may, at his discretion, either return the pieces to the tenderer, who shall bear the loss caused by such cutting or breaking, or receive and pay for the coin according to the value of the bullion contained in it.

42. The Governor-General in Council may make rules to carry out the purposes and objects of this Act.

43.—(1) In particular, and without prejudice to the generality of the next preceding section, such rules may (*a*) reduce the amount of remedy allowed, except in the case of the Standard of Currency, by any of the preceding section in the case of the coins issued under the authority of this Act; (*b*) provide for the guidance of persons authorised to cut or break coins under Sections 38 to 41 of this Act; (*c*) determine the percentage of diminution in weight below standard weight not being in any case less than 2 per cent., which shall be the limit of reasonable wear; (*d*) prescribe the further percentage referred to in (*a*) of Section 39 and the rates at which payments shall be made in the case of coins falling under the same.

(2) Every such rule shall be published in the Gazette of India, and all such publications shall have effect as if enacted in this Act.

44. No suit or other proceeding shall lie against any person in respect of anything done or intended to be done in good faith, under or in pursuance of the provisions of this Act.

These are all provisions for the detailed operation of the Act, as well as for the safeguard of innocent people taking coins in good faith which have been either too worn out, or have been defaced and thus debarred from currency. Elsewhere in this Act are appended sections which provide for the punishment of counterfeiters &c.

PART II.

The Paper Currency.

45. A currency note shall be a note issued by the Imperial Bank of India under the authority of this Act, and expressed in the form of a promise to pay on demand the sum specified in the note to the bearer thereof.

46. Except as provided in this Act, no person or corporation in the Indian Empire, other than the Imperial Bank of India, shall draw, accept, or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe, or take up any sum or sums of money on the bills, hundies, or notes payable to bearer on demand of any such person. Provided that cheques or drafts payable to the bearer on demand or otherwise drawn on bankers, shroffs or agents by their customers or constituents in respect of deposits of money in the hands of these bankers, shroffs or agents, and held by them at the credit and disposal of persons demanding such cheques or drafts.

47. Any person contravening the provisions of the next preceding section shall, on conviction by a Presidency magistrate, or a magistrate of the first class, be punishable by a fine equal to the amount of the bill, hundi, or engagement in respect whereof the offence is committed.

These sections establish the monopoly of the Note-issue in the hand of the Imperial Bank of India; and remove it, once for all, from the hands of the Government, the want of experience on whose part has brought upon us the currency troubles of the last few years. We think the Bank would be better able to cope with the task, being in daily touch with the business world, of which the money material must be a tool, not a master; an aid not a hindrance; a spur, not a drag. The Government officers, the best of them, do not know when to apply, what, and how. The Bank in sheer self-defence, and as though by a sort of instinct, must succeed where the official fails by intuitive ignorance, by intelligent incompetence. India would never have a reasonable currency system if it is to be entrusted, however well-framed, to red-tape maniacs and departmental routine.

But while entrusting this vital factor for the industrial and commercial life of the country to the care of an institution presumably competent to handle it, we cannot ignore the possibility of a great temptation to a private corporation to make personal profit from a public emergency. We have in this country no such centuries of traditions as induce the privately owned Bank of England to act uniformly for the public weal alone. We have not yet developed that fierce patriotic instinct which characterises the German in his fight against time to wrench the commercial lead of the world from England. And we have not the business instinct which makes the decentralised banking system of the United States respond so wonderfully to the call of the centralising spirit of the Federal Reserve Act. We must, therefore, adopt measures not to make the Bank impervious or indifferent to national interests in search of a profit for its proprietors. The constitution of the Bank must provide against this. In the present connecton, however, we must point out that the monopoly of note-issue vested in the Bank must be made subject to the guarantee that the privilege shall imply an obligation: that the Bank must answer for the ready and immediate convertibility of its notes, at the same time that it must provide what the country now most sadly lacks; a cheap, simple, popular, elastic currency. The following sections provide for these.

It must be added that while affording the country the form of currency which is most likely under existing conditions to be at once popularly, as well as scientifically acceptable, we have not lost sight of banking developments possible in other directions. We have provided for the legality of cheques and drafts on demand payable to the bearer or otherwise to be legal, even though no corporation, except the Bank authorised by this Act, is allowed to make or issue such notes, &c. In another connection we shall provide for other forms of banking activity which go to consummate the same ideal of improvements in currency to make it cheaper, more acceptable, more elastic.

The form of the note prescribed in section 53 of this Act, is in accordance with the one now prevailing, except that the note, instead of being an obligation of the Government of India, is now proposed to be that of the Imperial Bank of India.

48. The currency notes shall be issued as under, namely, in the denomination of five rupees, ten rupees, fifteen rupees, or one mohur, seventy-five rupees or five mohurs, ten mohurs, twenty mohurs, fifty mohurs, one hundred mohurs, and five hundred mohurs, in such numbers and at such times as may be determined by the bank aforesaid under a minute of its board of directors to that effect.

We have prescribed new denominations for our currency notes in accordance with the change in the *Standard* proposed in this Act. The notes of smaller denomination, *i.e.* those below one pound in value, have been expressed in terms of rupees both because it is more convenient to the people to retain the old measure with which they have been familiarised by long usage, as also because of want of any other expression for the smaller notes. We cannot import shillings and pence into our system, unless we abolish the rupee altogether. We cannot also dispense with the notes of a denomination under one Mohur, as we take it as the first principle of our proposals that the metallic currency shall be economised as far as it is possible, without depriving the people unduly of the sight of the precious metals. The smallest note, we may say as a matter of general principle, should not be below that of the ordinary current standard coin in denomination; but in the case of India, the notes are as yet the only means to economise the metallic currency, and we cannot, therefore fix the denomination of the smallest note so high as would necessitate the use of the standard gold coin for the daily needs. We must wean the people from the uneconomic habit of using too

large a stock of the precious metals as ordinary currency; but we must do so gently, and leave no loop-hole for a suspicion about the *bona fides* of the issuing authority. The first step, therefore, in the direction of this much needed reform is to place our currency standard beyond the possibility of equivocation or misinterpretation. Having done so, we have next to concert measures to husband the world stock as well as our own of the precious metals. We thus come to the need for a note-system which would serve as an unquestioned substitute for money to which the people have hitherto been unduly attached. If we make our note-issue such as would cause doubts or distrust, it would be doomed even before it was put before the public, unless forced upon them by superior might. The only means to accomplish this rather complicated business is to make the note as low as five rupees in value—a note to which the public have been quite accustomed, and so arrange the rest of the higher denominations as to minimise the use of specie by offering more convenient media instead. But the same reasoning which has led us to adopt the five rupee limit as the lowest prevents us from going lower still to economise the use of silver—of the rupee. The people can understand, or feel, the need for economising gold, probably because their average transactions do not really need gold; but they will not accept the paper substitute for the rupee without all the suspicions of a people accustomed to being swindled being aroused.

In another section we shall provide for the redemption of the notes when presented to the issuing authority. Here we must observe that the expression of the lower notes in terms of the rupees is not meant to avoid the fundamental principle of a gold standard and a gold currency, but only a sort of a more convenient expression, in the absence of an equivalent coin in gold familiar to the people. The higher notes have been expressed in gold so as to leave no margin for doubt as to the character of the obligation. The two main alterations in the prevailing system effected by this Act are: the change from silver to gold in the expression of the denomination of the notes, and the discontinuance of the notes of the smallest denomination now current as well as those of the highest.

49. The currency notes shall be payable, when presented to the Imperial Bank for that purpose, in gold coins of the Indian Empire, provided that notes of small denominations, namely, five rupees and ten rupee notes, may be paid in the lawful silver money of the said Empire, and within the limits of legal tender, as prescribed by this Act.

This section consummates what the first part had commenced. A definite gold currency is impossible to establish if the notes in circulation—the lawful substitute for ordinary money—do not represent the real standard currency of the country, and are not redeemable as by law in the Standard of currency. I feel it as my deliberate conviction that the reason, why the note issue in India did not make any great progress before the war, was not so much the difficulties attendant upon limited opportunities for conversion owing to the system of circles of issue; nor because of too high a denomination in the note of the lowest value; as the fact that after the closure of the Indian mints to the free coinage of silver, and with the continued decline in the gold value of silver side by side with the forced appreciation in the gold value of the rupee, the currency notes, being payable as of right only in the silver coin the bullion contents of which had so considerably depreciated in value, were not as acceptable substitutes for metallic money as they might have been had they represented some more honest form of money. This the illiterate and the suspicious felt to be nothing but a double-faced treachery; since, being themselves worthless except in respect of what they represented, the attempt to keep them from being payable as before in gold, in spite of a change in Standard for all other purposes, made the notes more than ever distrusted. Government were not bound to give what appeared to be the more valuable currency in exchange either for their currency notes or even for rupees, so that even the double operation of converting notes into rupees, and subsequently converting rupees into gold, was not accessible to obtain what they thought to be the better currency. There can be no doubt, as the events during war-time showed, that there was great field for the legitimate extension of paper-money in this country. And yet for fifty years, this excellent substitute for the cumbrous, primitive mode of settling exchange transactions did not make any considerable headway in the opinion of the people. Forced circulation must not, indeed, be thought of; but without force, without indirect inducements amounting to force, they might still have become more popular if those who had the management of the note-issue had understood the needs and the thoughts of the Indian people. It is the inevitable misfortune of our system of Government that the people are so little understood by their rulers. It is the unavoidable penalty of the rulers to find their best measures, conceived in the truest interests of the people, are apt to be frustrated for want of sympathy that springs from knowledge, inspiring confidence. I therefore, think the sooner we strike at its root cause, the better. The currency notes must be made gold obligations beyond the possibility of doubt, or even equivocation. I have accordingly expressed the notes in the new form of our currency system, and by this section, made them redeemable as of right in the only form of redemption—gold. Only in the case of those notes which, by the smallness of their denominations do not admit of a gold redemption, have I allowed a silver convertibility; but even there the legal tender limit has been strictly enforced.

50. The Imperial Bank of India shall provide through its currency notes of the denominational values prescribed by this Act and shall supply the Branch Offices and Agents subordinate to the branch offices with such notes as they need for the purposes of this Act.

51. Every such note shall be worded so as to be a clear obligation of the said Imperial Bank of India, and shall be signed by the General Manager of the Imperial Bank of India, or any other officer of the said bank specially authorised under the constitution of the said bank to sign on behalf of the said bank such obligations of the said bank. Such signature may be impressed on the notes by machinery, and when so impressed shall be deemed to be valid signature.

52. The General Manager at the Head Office and the Branch Managers at the Branch Offices and the agents in other place specially authorised in that behalf shall issue in the name of and on behalf of the Imperial Bank of India currency notes of the denominational values prescribed by this Act in exchange for the amounts thereof in gold coins issued under this Act, or gold bullion at the rate prescribed by this Act in that behalf, or in rupees to the extent of not more than one hundred and fifty rupees at one time.

53. All officers of the Imperial Bank of India entrusted with special functions under the provisions of this Act and authorised to provide, sign, issue, or exchange the currency notes, shall be appointed by the directors of the said bank subject to the approval of the Governor-General-in-Council.

These sections provide for the manner and the organisation for the issue of the currency notes. The changes in this section are all of minor importance, and are such as could be inferred from the general principles already formulated. We have abolished, for example, the circles of issue as established by the present arrangements; and substituted instead the branch offices and agencies of the Bank. But there is the important difference between the existing arrangements and those proposed here: that while the circles of issue as now existing are so many hindrances in the way of a free circulation of these notes, under the arramgments outlined here the branches and agencies will only help to add to the popularity of the notes. All notes under this Act are universal notes. The system of signing and the responsibility thereunder have been more clearly defined. The issue of notes against silver coin has been limited to hundred and fifty rupees, the legal tender limit prescribed for silver coins by this act. The object of allowing silver at all to be a permissible exchange is to allow the notes to displace even silver as far as possible. The Bank is not bound to issue notes in large quantities except against gold coin or bullion at the rate prescribed. Silver bullion is, of course, not to be accepted in exchange for the notes.

The vast powers granted by these and other sections to the Bank and its directorate and management need to be more specifically limited or safeguarded against a possible abuse, and so we have provided in the foregoing sections for the sanction or approval of the Government of India in specified cases. There is, however, a need for a more definite organisation for the supervision and control of the officers of the Bank in this particular department of their activities. It is to be hoped the Act laying down the constitution and organisation of the Bank will make suitable provision for the purpose, or will be amended accordingly, and the amendments incorporated in a consolidating act like the present one. But even in this Act, the several provisions relating to paper currency &c. will prove unintelligible unless we outline the functions of the Bank and their constitutional limitations. We shall defer that to the third part of this Act.

The Bank, it may be noted as an interesting feature of our proposals, is not divided, like the Bank of England, into two distinct Departments, viz. the Issue Department, and the Banking Department, each watertight by itself, but is kept a single, undivided corporation. There is, we think, nothing to be gained by such a division. The transfers of the available reserves are, if anything, rendered more difficult, if such a division is enforced; and that would lead to the difficulties of the money market becoming more acute than ever in a period of crisis. But we must not allow the Bank to discourage the use of notes by empowering that institution, under the plea of its notes being legal tender, to refuse specie in exchange. The next following section provides for such a contingency.

54. The notes of the Imperial Bank of India shall not be deemed to be legal tender by the said Imperial Bank of India at its head office or any of the branch offices, but the Agents shall be exempted from the operation of this section within limits prescribed by a Resolution of the Board of Directors of the Imperial Bank of India, unless the Agent has agreed to take upon himself on behalf of the bank the liability imposed by this section.

The exemption of the agent in backward country districts is a measure demanded both by prudence and justice. The credit of the Bank must not be endangered by the weakness or speculations of the Agent. On the other hand, if, for special consideration, the Agent specifically undertakes liability, there would be no sense in rendering the note circulation less popular by such exemptions. The Bank, however, must take precautions, at the time of obtaining such an agreement from the Agent as is contemplated by this section, as would minimise the danger of a sudden rush for the conversion of the notes, e.g. the stipulation that the Agent shall keep always at his disposal a specified proportion of Reserve in cash against the liabilities in notes of the Bank current in his district. In this respect the provision of the Federal Reserve Act of the United States are worth comparison.

55. The whole amount of the currency notes at any time in circulation shall not exceed the total amount represented by gold coin and bullion and the sum expended in the purchase of securities which are held by the Imperial Bank of India at its Head Office and the various branch offices in India (as well as the agents of the Bank) for the purpose of meeting the currency notes as a reserve to provide for the satisfaction and discharge of the said notes. The said notes shall be deemed to have been issued on the credit of the Imperial Bank of India as well as on the security of the said gold coin and bullion and securities.

56. For the purposes of the next foregoing section, currency notes which have not been presented for payment within fifty years of the date of their issue shall be deemed not to be in circulation; provided that all notes declared under

this section to be not in circulation shall nevertheless be deemed to be obligations of the Imperial Bank of India; and shall if subsequently presented for payment be paid from the reserve of the said bank and be charged to the revenues of the said bank.

These provisions require the Bank to keep a mixed reserve of coin and securities as the total available resources of the Bank against these obligations. The proportion of coin and securities in the Reserve will be defined by the following section. The permission to keep silver coin of the Empire in the reserve is granted with a view to provide the means of exchange for small notes. The exclusion of the notes which have not been presented for circulation for more than forty years is not meant to reduce the liability of the Bank, but only for purposes of convenience in account keeping. The notes thus "superannuated" nevertheless remain an obligation of the Bank and must be paid from the Reserve on demand. But instead of allowing the Reserve to be thus depleted, the Bank is to charge such payments to its current profits. It must also be observed that the entire reserve against the paper currency is to be kept *in India*, as, under the words of this section, nothing that is not in any of the branches of the Bank *in India* can be regarded as good Reserve. We cannot allow the pernicious policy of keeping any portion of the Paper Currency Reserve outside India.

57. The total amount of the notes at any time in circulation shall not exceed three hundred crores of rupees in value equivalent to two hundred million mohurs. But nevertheless the amount thus fixed by this section may be increased under the authority of a resolution of the Legislative Assembly for any time, or an order of the Governor-General-in-Council for a period not exceeding three months.

The limit here set to the total circulation is large enough for all normal expansion of the currency. At the same time some such limit is necessary to prevent undue extension of credit by the Bank. In moments of special emergency, however, the section permits an increase of the total issue by a resolution of the Legislative Assembly, or, if that body is not in session, by an order in Council of the Governor General. In the last mentioned instance, the increase in the issue will be good only for three months at the most, as it is clearly an extraordinary measure for an extraordinary crisis which would not last for more than three months. The Legislative Assembly, if so minded, can get an amending Act passed permanently adding to the total volume of the circulation. But if the circulation is increased temporarily, the Bank, on the analogy of the Reisch Bank of Germany, ought to be made to pay for the privilege, and permitted to vary its character of the Reserve against its note liabilities so far as to admit under the heading of securities good trade Bills and other mercantile securities. This is provided for by the next section.

58. In the event of the circulation of the total number of notes of all denominations being temporarily increased (in the manner provided for in the next preceding section) the bank shall pay a tax of five per cent. per annum on the average excess of circulation during the period that the operation of this Act was in abeyance as regards the total amount of notes allowed by this Act to be at any time in circulation.

59. The Imperial Bank of India may, during the period of temporary increase in the circulation of their notes, hold the required reserve under this Act partly in gold bullion and coin; partly in securities different from those prescribed by this Act. Such other securities to be Bankers' acceptances or Good Trade Bills, drawn against actual commercial transactions, and secured by the goods or value forming the subject matter of such transactions; and having at least two well known signatures by way of endorsement, one of which shall be that of a bank, and having not more than sixty days to run. The Imperial Bank of India shall not be permitted to regard as good bills or securities under this section any advances made by itself on personal security of its customer or on the security of immovable property whether Urban or Agricultural, or the stock in trade, or any other similar security. But nevertheless it may consider as good securities, within the meaning of this section, any advances by a banker or shroff who is himself a client of the Imperial Bank of India and rediscounted with the bank aforesaid, notwithstanding the fact that such banker or shroff has himself advanced to his client on any of the securities considered insufficient or ineligible for advances by the Imperial Bank of India under the provisions of this section, and for the purpose of securing a temporary increase in the note issue.

This is an attempt to connect genuine business transactions with the Note Currency, allowing of an increase in the total issue in response to a genuine trade demand. If the demand is only temporary, the Bank will, normally speaking, not add to its circulation and liabilities, by asking for an increase in the total permissible circulation, unless it can pay the tax on the excess as required. This would, in other words, be equivalent to the common device of the Bank of England to meet a demand for gold by raising its rate of discount. The Indian Bank will not be, for some time to come, at any rate, under the influence of any traditions of a low rate of discount; nor do we think it expedient at this stage to limit the discretion of the directorate of the Bank by prescribing a maximum rate by law. But the ordinary competition for business by the banks among themselves will not allow the Imperial Bank recklessly to keep a high rate. If anything, its rate will be appreciably low. It is only when the Bank has good business coming to it, and is yet unable to accept it owing to the limitation on its note-issue, that it would venture to ask

permission for an increased issue and undertake to pay the required tax on the increase. The Bank may avoid the payment of this excess tax if it does not send out the increase into circulation, but holds the excess itself and gives out other forms of money instead. This last contingency, however, though possible, will be provided against by the requirements of a minimum metallic reserve to be held by the Bank in accordance with the subsequent section. The latter portion is based on the model of the similar provision in the Federal Reserve Act.

60. The Reserve prescribed by this Act and held by the Imperial Bank of India for the security of the total note circulation shall consist in the manner provided below namely, not less than 100 million mohurs, or half the total amount of the authorised circulation, shall be in gold coin or bullion; and the other half or one hundred million mohurs shall be in securities as prescribed in the following sections. If at any time the actual amount of notes in circulation is below the authorised amount the reserve to be held in specie as provided by section 61 para. 1, must be calculated in the proportion prescribed by the said para. of this section, and not fixed at 100 million mohurs.

61. The securities to be held in the Reserve against the total amount of notes in circulation under the provisions of the next preceding section shall be the securities of the Government of India payable in the Indian currency in India to the extent of not more than 40 per cent. of the total reserve held in the form of securities; provided that the loans issued by local governments, municipalities. port trusts and other public corporations working under the authority of the Government of India shall be regarded as and included in the securities described as the securities of the Government of India. The remaining securities may consist of interest bearing bills, bonds, drafts issued by the railway companies, tramway companies and other semi-public corporations not connected with the Government of India; and bills of exchange, drafts, hundies, and other good commercial paper having not more than six months to run and arising out of genuine commercial transactions involving the import or export of goods or the domestic shipment of goods with documents conveying or securing title attached, and bearing at least two well known signatures one of which must be that of a recognised banker or shroff himself a client of the Imperial Bank of India; provided that the commercial paper declared to be eligible as security against the note issue of the Imperial Bank of India shall be taken in the books of the bank at the actual purchase price and no more.

This provision of the Reserve introduces two great changes of a radical kind in the existing organisation. (1) Instead of the fiduciary Reserve being a *fixed* quantity which is judged to represent minimum requirements of the public in the matter of paper currency, and, therefore, the notes covered by that portion most unlikely to be ever presented for conversion into specie, we have fixed it as a proportion of the total circulation, thereby, allowing the issuing authority a direct interest in the increase of the note issue, as the interest derived from these securities shall, under the provision of the next section, be regarded ordinarily as the normal income of the Bank. This principle as well as the proportion of the fiduciary Reserve is in accordance with the Babington-Smith recommendations. The action taken by the Government of India in this behalf has already been noted. This is a valuable concession, representing a gift of Rs. 6 crore per annum nearly to the Bank, and I am not sure if a wise financier would not make the Bank share its adventitious gain from the monopoly of the public credit vested with the Government. The securities, however, must be the securities of the Government of India, or of the corporations working under the authority of the Government of India, or by their very nature regarded as bodies with a semi-public character. This will render it impossible for the Bank to invest any part of this Reserve in foreign securities. (2) But the Bank may hold a fair proportion in the best kind of foreign security, viz., the trade bill of not more than six months' duration and representing a genuine deal in goods. No object will be gained in preventing the Bank from having a part of its Paper Reserve Funds invested in such foreign securities, as there is really no danger in such holdings, and as the Bank will presumably have to make considerable remittances on account of the Government of India by way of meeting the Home Charges from time to time, it may quite possibly be advantageous for the Bank to have such Bills which it could realise in England. The Bank would come to do a good deal of exchange business in this way; and would probably finance a respectable proportion of the foreign trade of India. With a branch in England and the principal foreign countries with which India may have trade dealings, the Bank would be able to obtain practical monopoly of the foreign trade finance.. I see no reason why the Imperial Bank of India should be kept out of the Exchange business, since (*a*) Exchange business ought to lose all its terrors under a stable currency system, (*b*) since the Government of India would lose the greatest advantage of having such a Bank if it does its unavoidable exchange business itself instead of doing it free of charge through the Bank, (*c*) and since the Bank doing Government exchange business, might as well do private financing in matters of foreign trade, particularly as such a combination in one hand would admit of a greater utilisation of all resources, public as well as private, for the facilities of trade. It would, however, be a measure of the prudence of the managers of this institution in so far as they so restrict the foreign holdings of the Bank as not to make the Bank unnecessarily susceptible to world crises. I would suggest that the holdings in foreign paper should not exceed at any time 20 per cent. of the invested reserve.

This measure brings the Paper Currency into direct and immediate contact with the trade needs of the country. The Bank may also be entrusted with the purchase of bullion on account of the Government; and in that case its operations will control and regulate the entire currency system.

62. The interests and other income accruing from the securities held as reserve against the note-issue may be considered as the normal income of the bank, and be available for the purpose of declaring a dividend, which shall at no time exceed ten per cent. on the total paid up capital of the bank.

63. The bank shall be exempt from the payment of all stamp and other duties in respect of the note issue in exchange for a lump sum payment of rupees fifteen lakhs a year; provided that this exemption will not apply to the income tax or tax on the profits of the bank or any other tax by whatsoever name known which falls upon the recurring income of the bank; but shall include the tax on immovable property owned or possessed by the bank.

64. The securities held in reserve against the notes in circulation shall be held at the head office of the bank aforesaid. These securities may at any time be sold in open market ,or converted, or redeemed, or renewed, by the general manager under the authority of a resolution of the board of directors specifically passed in that behalf; and the proceeds of the securities thus sold shall be employed as directed by the resolution aforesaid.

65. The total profits of the bank, from whatever source accruing, shall, after adequately providing for all the regular expenditure of the Bank, including income and other taxes, provision for superannuation and other similar allowances or funds for the employees and the required reserves, be disposed of as follows, namely: (*a*) In declaring and paying a dividend on capital at the rate not exceeding 10 per cent. on the nominal, paid up capital of the bank; and (*b*) the balance, if any, to be divided equally between the proprietors of the bank and the Government of India, after a sum not exceeding 25 per cent. of the net profits has been set aside for reserve.

The purpose of these sections does not need comment at any length. The limitation of the dividend to ten per cent, at most is a device to prevent the Bank from developing unwelcome tendencies of profit-earning at the expense of public benefit. If the Bank gets more business as the result of these provisions, and it is expected that it will, there is no reason why the benefit of this increased profit should be enjoyed exclusively by the proprietors of the Bank. Even though a considerable portion of the capital of the Bank may have been provided by them, a not inconsiderable portion of the total capital of the bank would be held by the Government. The general trading public cannot appreciate the advantage gained by a reduction in taxation due to the Government obtaining such additional income from its trading and industrial ventures. They must get the advantage to which they are fairly entitled in the shape of a low rate of discount and ample capital facilities, which the various concessions implied in these sections would quite easily place at the disposal of the Bank.

The exemption from Stamp Duties is a matter of administrative convenience which is to a great extent off-set by the obligation of an annual lump sum payment. The retention of property and income taxes is to be justified on grounds of public policy. A corporation of such extraordinary privileges cannot but be made to share the tax burdens of the general public at the same rate as the ordinary private trader or banker. Still these provisions would mean substantial concessions to the Bank. It must be added that the tax on excess issue beyond the authorised amount is in addition to the ordinary income tax. Finally the holding of the securities in India at the head office must be construed to apply only to the securities which by their nature are capable of such holding, and not to such other securities as the trade bills which must necessarily be held in the branches whether in India or outside India.

66. An account showing the amount of interest or profit accruing on the securities held as part of the preserve under this act and the expenses and charges incidental thereto shall be published annually by the general manager of the bank and be placed before the Legislative Assembly of India.

67. A depreciation fund of 5 per cent. of the total reserve held in the shape of securities shall be formed out of the total income from these securities and shall be set apart for the purpose of making good any loss to the reserve sustained by the depreciation of any security. No credit shall be allowed to be taken by the bank for any appreciation of any security.

The provision to avoid loss by a sudden depreciation of the securities in the Reserve will ordinarily apply to the Government securities yielding a fixed interest, but may quite possibly be of practical importance in the case of commercial securities in the event of a crisis and wide-spread failures. The insistence on a fixed rate of deprecation may not seem quite advisable, and it may perhaps be better to leave the actual percentage to be thus set aside to the discretion of the Directorate of the Bank. Credit need not be allowed for appreciation, which, however, if of a permanent kind, may strengthen the position of the Bank indirectly. Besides, the provision regarding the right to dispose of the securities at a favourable moment will enable the Bank to reap the advantage from a reasonably sound appreciation of any permanent security. It is much more likely however, that in the event of a permanent appreciation of its credit Government may seek to convert their obligations of a higher rate of interest into those carrying a lower one, so that there would be no real advantage to the Bank. In any case, it is to be most sincerely hoped that the management of the Bank, in the exercise of the wide powers entrusted to them for the benefit of the public shall not allow themselves to be tempted and be led into speculation in these securities which would be of the utmost danger to the commonwealth. Perhaps it would not be

unreasonable for the Government of India to stipulate with the Bank that no portion of its securities held by the Bank as Reserve against the notes shall be sold, except with the consent of the Government, or that at no time the Bank will hold less than a fixed proportion or amount of the Reserve in the securities of the Government of India. This Fund for depreciation of securities must, it may be added, be held apart from the ordinary reserve of the Bank, and be treated separately. The Section is silent as to the form in which it should be held; but it may be said that it would be against the nature and object of the provision if this special fund is also held in the form of securities liable to depreciation common in this country and so well known to our bankers. This portion of the Act is based on the similar provisions of the Federal Reserve Act, though, of course, owing to a radical difference in organisation, the language cannot be identical. The obligation on the note being an obligation of the Bank and not of the Government as is the case in the Federal Reserve Notes of the U.S.A., we cannot of course include all the provisions for the withdrawal of the collateral for the notes in exchange for the notes, or the creation of a special redemption fund, or the penalties on the member banks for cashing other banks' notes, &c. But we think some such provision for ensuring contraction of the notes in times of easy money ought to be made under the well known conditions of alternating seasonal fluctuations in the demand for currency. There would be involved, indeed, an increased expenditure to the Bank if the notes are to be destroyed when returned or not wanted; but perhaps that expense would not have been incurred in vain if this arrangement helps, as we believe it will, to stabilise prices in the country. Besides, as the plates for the notes will be kept ready engraved, there would be no appreciable delay in the supply of new notes when wanted by the public.

68. An abstract of the accounts of the paper currency operations of the Imperial Bank shall be made and published in the Gazette of India four times a month, showing (1) the total amount of the currency notes in circulation; (2) The amount of coin and bullion reserve, distinguishing gold from silver and coin from bullion, in the case of gold; and showing separately any amount not actually in the hands of the bank but in transit and considered as part of the reserve; (3) The nominal value of the price paid for and the market price of the securities held as part of the reserve, showing separately securities of commercial kind; and distinguishing between securities of this latter description held in India and those held outside India, as also those held by the head office and those in the possession of the branch offices.

69. Notes of the Imperial Bank of India in the hands of the head offices or any of the branch offices of the said bank shall not be considered as lawful money for the purpose of reserve required to be held against the notes in circulation under the provisions of this Act.

70. Every branch office and every agent, with the exception of the chief branch office in a province or in a foreign country, shall immediately return to the head office of the bank aforesaid, all notes issued by the said branch against eligible commercial paper and returned to the branch on the maturity of the discounted paper and its payment by the party concerned in lawful money. The head office shall either destroy the notes so returned and against which there is no reserve, or the portion of the reserve covering these notes has automatically ceased to exist, or reissue them against acceptable money or security. A margin of 5 per cent. of the total notes issued to a branch and circulated through that branch may be allowed to be held by that branch as till-money for the branch.

These sections are an attempt to bring about an automatic contraction of the note-issue as and when the need for abundant currency disappears. It is made the interest of the agents and branch managers not to keep notes of a foreign circle in their hands longer than they can help. And as the notes are not allowed to be regarded as portion of the Reserve, there is no reason why the Bank should continue to keep them in circulation when no longer wanted. In normal times this provision would be not very important in practice, but it may be quite useful in periods of trade activity and depression.

71. Anyone who possesses, without lawful excuse, the plate or dies from which the notes of the Imperial Bank of India are printed, or is found to be in possession of the stamp of the signature to be impressed on each of the notes issued by the Imperial Bank of India, without lawful excuse, or in any way is prosecuted before a presidency magistrate or a magistrate of the first class for the offence of forging, counterfeiting, or uttering a forged or counterfeited note knowing it to be so forged or counterfeited; or aids or abets any one in counterfeiting or uttering a forged or counterfeited note shall, on conviction, be liable to a fine of not exceeding five hundred mohurs for the first offence or imprisonment for not more than a term of two years with hard labour, or both, at the discretion of the magistrate trying the case. Anyone found guilty of any of the offences detailed above, more than once, shall, on conviction, be liable to a sentence of transportation for life.

These provisions are the ordinary safeguards against the criminal tendencies of mankind. In India after nearly sixty years of experimenting with a note-issue there has been found very little reason to make the law against forgers, &c., a savage one awarding draconic punishment. Besides, the fear of punishment hardly deters the criminal. He thinks never to be caught. The best way to provide against this danger would be not so much by making the law rigorous, though of course

that cannot be lost sight of; but by taking the greatest possible precautions for the safe-keeping of the instruments for the printing and executing of these notes. The paper, the design, the numbering, the signature shall all be so arranged as to leave the least possible room for such offences or temptation Possibly the very printing of these notes may have to be done in the presence of and on the premises of the Imperial Bank authorities, instead of at the Government Press. We would insist on the notes being made and executed in India instead, as is the present practice, of being sent out from England.

PART III.

THE IMPERIAL BANK OF INDIA. RELATION TO THE NOTE ISSUE AND CURRENCY ORGANISATION OF INDIA.

In the following sections relating to the organisation of the Imperial Bank, and the conduct of the note issue and the management of public remittances, reserves and balances, we shall assume a constitution for that institution in harmony with the functions entrusted to it of the kind here outlined.

72. The constitution of the Imperial Bank of India, its direction and management shall be provided by an Imperial Bank Charter Act to be specially passed by the Legislative Assembly in India in that behalf subject to the following general principles, namely :—(1) The bank aforesaid if a private corporation whose capital is required to be subscribed to by private individuals, shall allot fully paid shares to the State of not less than one-third of the total authorised capital of the bank in exchange for the bullion and coin reserve now held by the Government of India against the notes now in circulation, or such other securities of a like nominal value as may be prescribed by a resolution of the Legislative Assembly specially passed in that behalf. (2) The Government of India shall be entitled in virtue of their proprietorship in the bank to nominate one-third of the directors of the bank aforesaid on a recommendation from the Legislative Assembly either from among the officers of the Finance Department of the Government of India, or the members of the Legislative Assembly and the Council of State, or any other non-official persons or bodies at the discretion of the Government of India. And these directors appointed by the Government of India shall vote in accordance with their judgment, or the directions of the Government of India specially issued to them on a particular question coming before the bank directorate for discussion and disposal. (3) That the Finance Member of the Council of the Government of India shall be *ex-officio* president of the board of directors as well as of such committees of the board as may be appointed from time to time to deal with the question of the increase of note issue, purchase of bullion, management of new loans of the Government of India, manipulation of the invested reserve against the paper currency, and all such other questions directly affecting the public at large. In such matters the president of the board or the committee shall have a casting vote in addition to the ordinary vote as a member; and shall have the right to postpone the decision by a minute of dissent pending the orders of the Government of India or a resolution of the Legislative Assembly on the point involved. In matters not directly affecting the public interest the president of the board shall have only a casting vote in the event of members being equally divided. (4) All officers of the bank aforesaid in any way concerned with the maintenance or management of the note-issue and circulation shall be appointed by the directorate of the bank subject to the sanction of the Government of India. Officers thus appointed shall have all the rights, obligations, privileges, and duties of public servants in general and shall be subject to the Government Service Regulations.

These are all provisions inserted to guarantee the conduct of the Bank mainly in public interest even though the corporation is largely owned by the private capitalists. The Charter Act should, we think, make some provision for maximum subscription that can be made by individuals or corporations to the capital of the Bank, in order not to give a preponderant voice to any single individual in the conduct of the Bank. It should also provide against the maximum holding of the stock of the Bank by a single individual firm or company, so as to guard against the Bank becoming a prey to a group of financiers. We have, however, provided for a power of veto in the hands of the official President of the Bank to meet exceptional emergencies where the interests of the Bank may lie one way and that of the public another. For a precedent for such powers we must refer to the constitution of the Reisch Bank of Germany, where the Imperial Chancellor is made the ex-officio president of the Bank Directorium, and is given similar powers. The position and privileges of public servants accorded to the selected officers in the Bank is due to the character of their functions, as much as to the need for some good inducement to competent men to accept service under the Bank, even though it may not be quite so well paid as in similar private institutions. The capital to be provided by the State is only one out of several possible alternatives; but we think the principle must be accepted that some portion of the Bank's capital must be provided from the public purse. The activities of the Bank other than commercial financing, are not specifically provided for in these sections, as the whole of this Act is drafted primarily with an eye to Currency Reform. This does not mean that we are indifferent to the work of such an institution as an Agricultural Bank or an Industrial Bank. These matters are discussed in the part dealing with Banks and Banking.

73. The functions of the bank aforesaid shall include, subject to the provisions of the Bank Charter Act, the following, namely :—(1) To discount Indian rupee trade bills maturing within the maximum period of six months subject to a minimum rate fixed from time to time by the board of directors of the bank. (2) To rediscount gold trade bills bearing the endorsement of another bank or shroff or one of the clients of the Imperial Bank itself subject to a minimum rate fixed for the purpose by the directors of the bank from week to week. (3) To make interest bearing loans subject to the condition of a minimum rate of interest prescribed from time to time by the directors aforesaid on such security as may be permitted by the Bank Act. (4) To buy and sell gold bullion in India or outside India subject to the provisions of this Act and of the Bank Charter Act. (5) To accept deposits on interest subject to a minimum day to day balance being maintained by the depositor and allow interest for the same at a rate prescribed by the directors aforesaid; and to accept deposits without interest up to any amount liable to be withdrawn and not less than one week's notice or on demand as may have been specifically agreed upon between the bank management and the depositor. (6) To receive valuable goods for safe keeping with or without a charge as prescribed by the directors from time to time.

These functions are amongst those directly bearing upon the currency system. They do not exclude other functions such as serving as Government Banker, receiving and paying monies on account or upon the orders of competent authority from the Government, managing Government debts and loans newly issued, holding Government balances and reserves, and discharging all other functions that a State Bank may be expected to discharge on behalf of the Government. It will be for the Bank Charter Act defining the constitution and functions for the Bank more minutely to lay down these and various other analogous provisions in full detail. In this Act it would be out of place to embody all such provisions; but we may indicate such as are indispensable for the proper working of the system here outlined. We might have included more specifically in the foregoing section the provisions about the management of the Currency, but it follows from the provisions in the second part of this Act and need not be repeated.

74. Subject to the provisions of the Bank Charter Act, the bank aforesaid shall open branches as follows :—(1) Wherever the necessity for the issue of currency notes requires a branch, i.e., in every town in India with a population of fifteen thousand inhabitants or more; or in every town which is the headquarters of district administration; or the capital of a province, or Native State, or the junction of two railway lines or more. (2) And shall have accredited agents appointed under the authority of the board of directors of the bank in every village which is the headquarters of a sub-divisional office, or the place with a separate post office and telegraph office of its own, and is not included in any of the classes mentioned in para. 1 of this section.

75. The branch managers shall be appointed by the directors of the bank subject to the approval of the Government of India.

76. The branches and agents shall forward to the head office every day by telegraph after business hours an abstract account of the balance in hand, in coin, or bullion, the amount of notes held in hand or issued through the branch, and such other information as may relate to the note-system of the Imperial Bank.

Under these provisions there would be instituted nearly five hundred branches and agencies, possibly many more, and will thus afford India a proper banking system. The country parts of India are even now practically without any banking facilities, with the result that the usurious moneylender thrives on the ignorance of misfortune of the agriculturist and the artisan. And even in the towns the available banking facilities are confined only to the richer and more advanced classes. No reform of banking in India will be considered complete which omits to provide for this crying defect of our financial organisations; and we cannot, therefore, be quite content to accept the proposals of the Presidency Bank Amalgamation Act of a hundred branches for the Imperial Bank of India. If the Bank is to do all the Government business, and at the same time afford all the banking facilities to the public at large, there must be a more ambitious programme of branch extension than as so far been contemplated; and if the expenses involved in having independent branches in out of the way places are not likely to be met from the business obtainable—the ideal of self-sufficiency must be held before every branch manager—there would be the Agencies which would within limits afford the same facilities as a branch would. Possibly the Bank Charter Act would make a distinction between the relative status of different branches, e.g., provincial chief branches or first and second class branches; but we are not here concerned with such distinctions. The provision for submission of an account of daily operations relating to the Currency notes is within the province of this Act; and may be necessary to keep the directors informed of the state of the Bank business in every part of the empire. The foreign branches are necessary for exchange business, which we trust will be done by the Bank in ever growing proportions, and the number of such branches will not be needlessly restricted. The duties and functions of such branches will have to be specially provided for by the Charter Act, and we here add some specimen of the provisions, which, in our opinion, ought to be included in the Charter Act.

77. There shall be established a branch of the Imperial Bank in London which shall be regarded as being the head office of all the branches the Imperial

Bank of India may deem fit to open in the various European and other countries for offering exchange facilities to the Indian trader with those countries. Such foreign branches shall be free to do the business ordinarily transacted by the head offices and branches of the bank in India, and subject to the provisions of this Act. In particular the London branches shall transact the following business, namely :—(1) Selling drafts on India either by way of rediscount from other bankers, or, directly from the customers of the London branch, or from the public at large, at a rate announced from time to time by the London branch as the minimum rate for the purpose. (2) The rediscount of sterling bills if necessary with the Bank of England. (3) Receiving deposits from its customers in England at the current rate of interest for such deposits in England subject to such conditions of reserve as may be prescribed by the board of directors in India and the rules made under the provisions of the Charter Act or this Act. (4) Borrowing for short periods from the Bank of England or other joint stock banks in England and lending money for short terms on such securities as may have been prescribed by the board of directors subject to the provisions of this or the Charter Act. (5) The flotation of sterling loans on behalf of the Government of India in the name of the Secretary of State for India in Council. (6) The management of the balances of the Government of India in England in addition to such other business such as buying and selling of gold or silver bullion as may be prescribed for the bank in India and may be specially ordered by the directors to be carried out by the London branch.

78. The London and all other foreign branches of the bank aforesaid shall be governed under the provisions of this Act by a manager appointed by the directors in India aided by a council of three members selected from among the most important customers of the foreign branch or its officers, including the chief accountant of the branch, the secretary, if any, and the head cashier.

For a long time to come the London branch would be the most important foreign branch of the Bank; and it would, therefore be necessary to lay down its functions and constitution more minutely than would be necessary in the case of other foreign branches, though the New York branch, if one is opened, may in the near future prove quite as important. The branch must be administered under the provisions of this and the Bank Charter Act by the manager, who ought to have some assistance in deciding more important questions of policy in an emergency when it would not be possible to obtain instructions from the head office in India.

The price which the Imperial Bank would pay in India for sterling bills will to a large extent be governed by the Bank-rate in England coupled with the rate of exchange between India and England, and not be the same as the local rate for Indian bills. The Bank in India by offering concessions upon the competitive market rate for such bills will be in a position to induce the exchange and other Banks to re-discount their sterling paper with the Imperial Bank. The same may be done with regard to the trade bills on or from other countries by means of branches in those countries. The Impeial Bank will not be the loser, since the Bank-rate in England is often lower than the Indian rate for rupee bills particularly in busy seasons, and the difference in the rates would represent the gain to the Imperial Bank.

79. The Imperial Bank of India shall help to economise the use of metallic currency in India by introducing all devices calculated to and in the attainment of this end.

80. The Imperial Bank of India shall undertake to remit money free of charge for its customers between any two places in India whether or not the party to whom the money is remitted is a customer of the bank at its head office or any one of the branches or agencies provided always that the bank shall be at liberty to prescribe any such conditions as to a minimum balance of deposits, etc., which may be deemed fit by the board of directors of the bank. The said bank shall also undertake to collect subscriptions for newspapers, premia for Insurance Companies and similar other payments due to its regular customers and recurring periodically free of charge subject to such conditions about a minimum balance, etc., as may be imposed by the directors of the bank.

81. The bank aforesaid shall undertake remittance business between distant places in India on account of persons other than the regular customers of the bank at a charge which shall be lower by fifty per cent. of the minimum charge now made for similar business by the post office under the heading of money orders subject to such conditions as to the minimum sum remitted, etc., as may be prescribed by the board of directors in that behalf.

82. The Imperial Bank may require all its customers to domicile the bills receivable by them with the bank and make all bills payable by them through the agency of the bank and impose such conditions as to the minimum balance in this behalf as may seem fit to the directors of the bank.

These provisions are an attempt to introduce the facilities offered to its clients by the Reisch Bank in the shape of its "Giro" system of transfers and the so-called "postal cheque." On the continent of Europe these devices are quite well-known, and have been pronounced to have proved successful by competent authorities. In this country we shall need more urgently than any people on the continent of Europe some such means to overcome the ages old fondness for specie in all daily transactions. To the Bank such a business would mean considerable economy in the use of the money material and great latitude in the matter of its reserve. By merely making the necessary entries in the books of the branches affected the Bank could do the remittance business for India almost entirely, the extent of which we cannot estimate from any data of the post office remittances to-day though even that is not inconsiderable. Besides saving the trouble of counting and testing coin, and avoiding the danger of handling many sums of money, as well as the loss from interest during transit, the Bank will indirectly secure the great advantage of having a guaranteed minimum of balances being always maintained with it free of interest, as the people desiring transfer facilities will be bound to keep their prescribed balance. As in times of crisis people want nothing so much as facilities of transfer, the Bank, thanks to these balances, would be able to make loans even from the current account deposits. The Bank may even insist that no money can be withdrawn in cash from the Bank by its customer for purposes of making payments in all those cases where the Bank's Transfer System would suffice. Only for his own immediate use, as for example for pocket-money during a long journey or for small domestic expenditure, would the customer be permitted to withdraw any cash from the Bank. This system, if adopted by the other Banks as regards their customers, and assisted by a wide-spread system of clearings, would help more than any other device in India to economise the use of specie.

The great example of a successful Transfer System is provided by the Reisch Bank of Germany and the banks associated with it in the clearing house. Under the Reisch Bank Act this institution was obliged much in the same way as the foregoing sections oblige the Indian Imperial Bank to facilitate the transfer business of the German Empire. The Reisch Bank found the condition of paying a tax for increasing its note-issue very onerous and found no good compensation in interest-bearing deposits for the withdrawal of Trust Funds, &c. As the cash brought in by encouraging transfer business can be regarded as good cover for the notes, there was a direct interest given to the Bank to stimulate that department of its activities. The depositor avails himself of the transfer facilities, signs a copy of the printed regulations of the Bank relating to the Transfer business, and then opens a transfer account at a branch or head office of the Bank with a "balance" which may be afterwards increased by further deposits, by transfers from other current or transfer accounts, and by adjustment of transactions between the Bank and its customer. When a transfer is desired the Bank provides two printed forms of different tint, one white which is used for the withdrawal of the sum stated in cash, the other red which will involve only a book entry and no parting with cash by the Bank. The white transfer form is made payable to the customer himself or a named person or bearer; the red one to a named person only and is not transferable in its turn. This is used almost exclusively for distant transactions. The Bank requires a minimum balance for the transfer account varying from 1,000 marks to several thousands according to the amount of business. To the depositor the transfer facility is allowed free of charge; but to the non-depositor a small fee is levied, which, however, is greater than a similar charge made by the Post Office, as the Bank does not wish to interfere with the postal business as regards the transfers of small sums. As the Reisch Bank has branches all over Germany, and as it is in intimate contact of Germany through the central clearing house of Berlin, the transfer business secures the greatest possible economy in the use of the precious metals.

The foregoing sections, as already observed, are based on this model with the necessary changes owing to the difference in the conditions of the two countries. We have reason to believe that the economy induced by these measures of the Imperial Bank would be much greater than could be secured by any extension of the cheque system, which for at least a generation will not be suitable for the great majority of the Indian people who are unable to sign their own names or understand the nature of a cheque, while these transfer forms can be readily understood by the most illiterate person owing to difference in tint and such other devices.

The Directors of the Bank will necessarily have to make rules to provide for the attestation of marks made by illiterate depositors in lieu of signature, the minimum balances, the colour of paper used for distant transfer for cash or book transfers.

83. The Imperial Bank shall publish an annual account of its operations giving details of the different kinds of banking business allowed under the provisions of this Act or of the Bank Charter Act, together with a review of the salient features of the year's business; and shall submit the same to the Committee of Supervision constituted under the authority of the next following section.

84. A Committee to be called the Committee of Supervision over the Imperial Bank of India shall be constituted by the Government of India, and shall consist of not more than seven members, three of whom shall be: the Finance Member and the Member for Industries and Commerce in the Executive Council of the Governor General and the Financial Secretary to the Government of India; and the remaining four chosen by a resolution of the Legislative Assembly from among its members and outside experts representing Indian Commerce and Industry.

85. This Committee shall consider and report upon the working of the Imperial Bank of India, with special reference to the issue of currency notes, and all other business incidental thereto; as well as the use and extent of the transfer system, the purchase and sale of bullion and securities, for the currency reserve, and the operations in this behalf of the foreign branches of the Bank. The Committee of Supervision shall draw the attention of the Bank authorities as well

as of the Legislature to any evasion or breach of the law, and shall furnish explanation on any doubtful point of law which shall be authoritative for the Bank and binding upon the Bank.

86. The Committee of Supervision shall be entitled to ask the Bank to open new branches in places specified by the Committee, to suspend existing branches, to add to or diminish their powers, to write off bad debts, or realise depreciating securities, to suspend, censure, or advance any officer or servant of the Bank.

After providing for the constitution of the Bank, there will still be some necessity to create another body to see that the working of the bank, is in accordance with the law; and that if any lessons are to be derived from the peculiar feature of any particular year they shall not be ignored. The supervising body here proposed is not merely a post obit institution, but a committee to control the Bank or advise it in important particulars. Its membership and general powers are a sufficient indication of the fact that the body is expressly established to see that the bank works in public interest, and is not led away from this conception of its duties by any temptations. We have followed in part the model of the Federal Reserve Board for the constitution and powers of this body, and in part the constitution and functions of the "Direktorium" and "Kuratorium" of the Reisch Bank. These powers may not be quite adequate to accomplish the end in view; but in that case the acknowledged deficiency will be made up by an amending Act passed by the Legislature.

87. The Committee shall appoint a number of examiners, not exceeding one-tenth in number of the total branches of the Imperial Bank of India, and one additional examiner for the branches in each foreign country.

88. The Examiners shall examine the operations of every Branch as well as the Head Office and every Agency of the Imperial Bank, and shall have power to make a thorough examination of all the affairs of the Bank. In conducting such examination the examiner shall have power to examine any officer or servant or agent of the branch on oath, and after the examination the examiner shall make a thorough and detailed report to the Supervision Committee. Such examinations shall take place at least twice a year; but no date shall be fixed in advance for the examination, provided, however, that the Supervision Committee may direct at any moment a special examination, to be held of any branch or agency of the Bank aforesaid.

89. The salaries of such examiners shall be paid from the current revenues of the Imperial Bank of India; but the Examiners shall be regarded in all respects as the officers of the Government of India. These examiners shall be appointed by the Committee of Supervision, and shall not be removable from their office except for proved misconduct and upon a resolution of the Legislative Assembly specially passed in that behalf. The salaries of these examiners shall be fixed by the Committee of Supervision subject to the approval of the Legislative Assembly.

90. The expenses of the examination, including the travelling charges of the examiners and their halting and other allowances, shall be charged upon the Bank and shall be governed by the Civil Service rules in respect of these charges. The examination provided in this and the foregoing sections shall be independent and exclusive of such arrangements for the audit of the Bank accounts as may be made by the Bank itself or be required under the provisions of the Bank Charter Act.

91. Any manager, director or other officers of the Bank offering any gratuity gift consideration of any kind to an examiner and convicted in a proper court of this offence shall be punishable by fine not exceeding 500 mohurs and shall be liable to dismissal from the service of the Bank and declared unfit for any appointment under the Government in any other Department.

These provisions have also been borrowed from the American legislation on this subject. A system of independent, unexpected, rigid, examination, carried out by competent officers, in no way connected with or dependent upon the Bank, must be regarded as the best guarantee of proper working in practice. The Committee of Supervision will guide the general policy of the institution, but cannot enter into details. The members will not be all competent to understand and discuss the technical points involved. They will find their best aid in the examiner's Report, which will be made after a thorough inspection by a competent person of all the books, papers, vouchers and the officers connected with the institution, if necessary, on oath. This system has produced excellent results in the United States, and there is no reason to doubt that similar results will be produced in India as well.

92. The Charter granted to the Bank under the Charter Act, and embodying the privileges mentioned in this Act and others detailed in the Charter Act, shall expire ten years after the date of the coming into effect of the first charter; but shall be capable of renewal by fresh legislation which may change any of the provisions relating to the administration, supervision, and examination of the Bank, and its branches; as well as the right of the State to be represented on the Board of Directors by a prescribed number of official directors, as well as the share

of the State in the profits of the Bank, or the tax on excess note-issue, or the taxes on the movable or immovable property held or owned by the Bank, or the stamp or any other duty payable by the Bank as a lump sum or any other contribution to the public Exchequer, provided that the provisions of this Act relating to the note-issue, the transfer and remittance business, the purchase and sale of gold bullion, in connection with the paper currency, shall not be altered except as provided for under this Act.

I have already expressed my view that it would be desirable to make such a considerable corporation as the Imperial Bank of India a completely government monopoly. The provisions here given are the logical consequence of the compromise accepted, paving the way for a gradual nationalisation of the Bank and its activities. The revision of the Charter periodically will be desirable as much in the interests of the Bank as in those of the public, since at each revision the Bank would obtain an opportunity to represent any special hardship in the working of the law which may be remedied.

APPENDIX 43.

Statement submitted by the Bengal National Chamber of Commerce.

(1) Is the time ripe for a solution of problems of Indian currency and exchange by measures for stabilisation of the rupee or otherwise?

Indian currency and exchange is intimately connected with English sterling, and now that the latter has regained its pre-War parity with American dollar and other gold coins of the world, and that England has returned to gold standard, and that condition of the world trade has become almost normal, it is time to solve the problem of Indian currency and exchange.

It has been proved by past experience that mere stabilisation of the rupee without gold standard and gold currency will be of no avail. The present gold exchange standard is more or less a misnomer, because it has failed to maintain the token character of the rupee, which, instead of deriving its purchasing power from the sovereign, has become independent of gold, and sovereign is sold in terms of the rupee. A sovereign, which could be purchased at Rs. 15 in the pre-War days, rose above Rs. 20 during the War, and now it is available at Rs. 13-6-0. The Government has fixed the value of the standard (£) in terms of the token (rupee). But the statutory rate has failed to induce people to exchange the standard (sovereign) in terms of the token (rupee), nor has it been able to issue the standard in exchange of the token. This failure on the part of the Government has given rise to a suspicion in the mind of the people. Had the proportion between gold and silver remained constant it would have been quite immaterial whether we used gold or silver. But this could not be, as there were appreciations and depreciations of gold in terms of silver and *vice versa*. The rise of silver beyond melting point led the Babington-Smith Committee to fix exchange at 2*s*. rate, which caused India a loss of about 35 crores of rupees. Had the Government been able to maintain the token character of the rupee by issuing and accepting sovereigns in the ratio of 1 to 15, as it was in its contemplation in the pre-War days, India would not have been forced to the critical position of 2*s*. exchange, losing thereby such a large amount as referred to above. There were four committees (Hershall, Fowler, Chamberlain and Babington-Smith) in the course of three decades, but no stability could be reached simply because they laboured under *wrong assumptions leading to wrong conclusions*. The arguments that India does not like gold and that if given she would absorb gold coins do not hold good. In this connection the Committee would like to quote Professor Cannan, and what the Chamber addressed to the Secretary of the Chamberlain Committee in 1919. The Professor says: "It seems much more likely that silver owes its position in India to the decision which the company made before the system of standard gold and token silver was accidentally evolved in 1816 in England, and long before it was understood, and that the position has been maintained not because Indians dislike gold, but because Europeans like it so well that they cannot bear to part with any of it." With regard to absorption of gold coins, we would repeat what we said in 1919: "It is no doubt to the interest of India if she would absorb gold coins which have ready markets outside India than silver coins which have no such ready market. The eagerness with which gold coins are now absorbed in India will, it may be reasonably presumed, disappear when the people will find the gold coins always and everywhere readily available in exchange for currency notes and other token coins. The commercial and educated classes prefer to use currency notes in place of coins." An

arrangement, under which currency notes could be exchanged at par for gold coins, will go greatly to stimulate their circulation. In England, where there is gold standard and gold currency people like to manage their work through notes, cheques and bills. Only a nominal percentage of gold is in actual circulation there. Under the circumstances it would be proper to introduce gold standard, gold currency with the circulation of gold notes, to stabilise rupee in the ratio of 1 to 15, our gold mohur being made equal to the sterling in weight and fineness, and to put a stop to further minting of the silver coins, and to throw the mint open to the coinage of gold.

(2) What is the comparative importance of stability in internal prices and in foreign exchange?

The stability of internal prices depends upon so many factors that it is impossible to create an ideal stability by manipulating the internal currency and varying the exchange rate, so that fluctuation of world prices may not influence internal prices. By having the gold standard we shall attain stability in exchange rate and the prices of those commodities entering into foreign trade (import or export) will move according to the world prices, and with them other commodities will move in sympathy. But the movement of world prices is naturally slow, and spreads over a long time, and gives less uncertainty than the movement of exchange rate.

There cannot be stability in India unless she adopts gold standard and gold currency, with fixed ratio between her gold mohur and silver token rupee, as almost all the countries with which she has trade relation enjoy gold standard and gold currency. The stabilisation of the Indian rupee in terms of gold will tend to bring the prices of her agricultural products on the same level with those of other countries which have gold standard, and improve the condition of the agriculturists and other producers.

(3) What are the effects of a rising and a falling rupee and of a stability of high or low rupee on trade and industry, including agriculture and on national finance?

Rising or falling rupee disturbs the normal condition of trade, industry and national finance. The interest of agriculturists is also affected in proportion to the rise or fall. The rising rupee favours import, no doubt, but leaves everything to speculators, because there is no knowing where it will stop. It encourages transfer of rupee capital to sterling or other foreign currency in the hope of reconverting the same to rupee at the time of falling rupee or in permanent investment in foreign countries. It serves as a bounty on foreign goods, and deals a crushing blow to indigenous industries which are forced to compete with cheaper foreign goods. It makes the payment of sterling charges easy and foreign remittances remunerative, but experience after the Babington-Smith statutory rate has shown that the immediate gain is nothing in consideration to ultimate loss, as stated above. The falling rupee, on the other hand, impedes import and encourages export, but here also speculation reigns supreme, there being no knowing of its destination. It requires more rupees to discharge sterling obligation, causing thereby a deficit in the Budget.

Stability of the rupee will help *bonâ-fide* trade and make commerce more secure, but the evils of high or low exchange, as have been shown above, will be a continuing obstacle, and will tend to ruin the country in either way. So it is best to have gold standard, as there will remain no chance of rising or falling exchange except within the specie points.

(4) In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

In view of what has been said above, the rupee should be stabilised in relation to gold standard at the ratio of 1 to 15, our mohur being made equal to English sovereign in fineness and weight. This will make calculation easy; our one anna and the English penny will be equal in value, a thing with which the merchants of both the countries are well acquainted. The gold coin may be made of some other denomination if considered fit, so long as Re. 1 is made equal to 7·5334 grains of fine gold.

This decision may be given effect to as soon as possible.

(5) If the rate selected differs materially from the present rate, how should transition be achieved?

So far as foreign exchange is concerned there will be no difficulty, because our payments and receipts will be in gold, and there will not be much fluctuation

in the rate of exchange. In internal currency the rate of conversion and reconversion of gold and silver coins will remain the same.

The Committee of the Chamber, therefore, recommend that gold currency be introduced in India without delay, and that the mints of India be opened to the free coinage of gold of the denomination of Rs. 15 (mohur) and Rs. 7½ (half-mohur). The further minting of rupee should be stopped. The control of the paper currency may be given to the Imperial Bank of India, the constitution of which should be so changed as to admit of effective Indian control.

(6) What measures should be adopted to maintain the rupee at the rate selected?

If gold standard and gold currency be introduced rupee will be reduced to its real token position. It will lose all its importance in relation to foreign exchange. To keep it well within its proper sphere (as internal token currency) provision will have to be made for easy conversion and reconversion of gold and silver coins, so that the people may be impressed that whenever they will demand gold they will get it. This sense of security will prevent them from always asking for gold in exchange of silver coins or gold notes. To facilitate circulation of gold the sterling securities in the gold standard reserve and the paper currency reserve should be realised at once and kept in India in liquid gold to support the convertibility of rupees and notes. There will be no harm if the two separate reserves be amalgamated.

(7) Should the gold exchange standard system in force before the War be continued, and with what modifications, if any?

In view of what has been said above, gold exchange standard in any form must not be continued.

(8) Who should be charged with the control of the note issue, and on what principles should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?

In almost all the civilised countries of the world the task of issuing notes has been taken from the Government and vested in the soundest bank of the country. The Bank of England is the model. It is in intimate touch with the Government of Great Britain and at the same time owned by shareholders and managed by representative governors. The Imperial Bank of India occupies a unique position. It may be given the power of issuing notes, but not until its constitution is changed as enumerated above. And then it should have two separate departments, the banking department and the issue department, which should keep accounts entirely separated from each other. The banking department will not be allowed to borrow from the issue department without proper security. There should not be any fresh manufacture of money by the issue department to feed the banking department. In times of acute stringency the Imperial Bank may be given power to borrow from the issue department against securities at a reasonable rate, which is to be fixed by the Government. There should be more Indian element in the directorate of the different circles of the bank to look to Indian interest.

(9) What provisions should be made as to the backing of the note issue.

A good system of note issue has two fundamental and cardinal principles, viz.:—

(1) Elasticity, and
(2) Convertibility.

Precious metal and coin will always facilitate the issue and circulation of notes. The portion of invested reserve should be fixed.

(10) What should be the facilities for the encashment of the note issue?

To facilitate encashment of notes there should be an issue department in all the head and branch offices of the Imperial Bank of India. Arrangements may also be made with Governmemnt Treasury offices and post offices for the encashment of notes. Easy encashment will increase circulation of paper money and contraction of metal coins.

(11) What should be the policy as to the issue of notes of small value?

There should be no issue of notes below Rs. 5.

(12) What should be the policy as to the minting of gold in India and the use of gold as currency.

Mints should be open to coinage of gold. As the minting of sovereign in India would require Royal Charter so we will have to issue mohurs of equal value and weight with sovereigns and half-sovereigns.

(13) Should the obligation be undertaken to give gold for rupees?

It should be the policy to issue gold coin in exchange of silver currency.

(14) By what method should the remittance operations of the Government of India be conducted? Should they be managed by the Imperial Bank of India?

The sale of Council bills and reverse Council bills should be stopped, and the remittance operations may be managed by the Imperial Bank of India under condition mentioned before.

(15) Are any, and if so what, measures desirable to secure greater elasticity in meeting seasonal demand for currency?

Should any, and if so what, conditions be prescribed with regard to the issue of currency against hundis?

There should be no issue of currency against hundis. If there be gold standard and gold currency the problem of seasonal currency will probably be solved.

(16) Should any change be made in existing methods for the purchase of silver?

This question would not arise.

APPENDIX 44.

Statement of evidence submitted by Mr. H. Stanley Jevons, M.A., I.E.S., Professor of Economics in the University of Rangoon.

Assuming that the questions sent to me indicate the subjects on which the Commission is most desirous of having an expression of opinion, I shall group what I have to say as answers to the questions, and add a few special remarks at the end. My views on certain aspects of the Indian currency system were expressed in my book, "The Future of Exchange," published in 1922 (Oxford University Press, Bombay). It will be convenient to curtail answers to some of the questions in the questionnaire by referring to this book, references being abbreviated (thus F. E., p. 16).

2. *Question* (1).—In my opinion the time is ripe for stabilising the rupee in terms of gold; but I deprecate hasty action on the report of this Commission, as on the report of the Babington-Smith Committee. There is now the opportunity of establishing a national currency upon a permanent basis; and I think the public and the Assembly are entitled to the advantage of an ample period for discussing the Commission's report, with the evidence submitted, before any action committing the country to a change of policy is taken.

3. *Stability of Exchange or of Prices.*—I regard stability of exchange as being of pre-eminent importance for foreign trade (F.E., pp. 183-5). The volume of trade is reduced by uncertainty of exchange, transactions showing a small margin of profit by estimate being abandoned. The possibility of making contracts for future sale of bills or remittance is a second rate protection of the merchant. At the present time many exporters have lost or will probably lose about a farthing in the rupee, if not more, because they fixed forward contracts as far back as August, when it was generally anticipated that exchange would rise to 1*s*. 7*d*. by December.

4. A great and sudden fluctuation of prices is certainly an evil; but a fluctuation in the normal course of the business cycle, as in the period 1825 to 1914, has some healthy influences; e.g., it increases the capital fund of the country by enabling unusual profits to be accumulated and invested, though I admit that a great boom of trade is unhealthy and leads to much waste of capital. It may be that in times of rising prices and optimism new enterprises which will prove sound and remunerative are undertaken which would never be undertaken with prices remaining always at a dead level. The gain to the labouring classes is important. The economic history of the nineteenth century indicates that each wave of prosperity (every seven, 10 or 11 years) meant rising wages, followed by a rising standard of living. The resistance of the working classes to a decrease of the standard of living in each wave of depression of trade has led to the skilled working classes being able to raise their standard of living very considerably. It is quite conceivable that, had prices not been subject to this cyclical fluctuation, the wages and standard of living of the skilled workers would have risen less in the last hundred years.

5. Serious economic results arise from secular movements of prices upsetting the relations of debtor and creditor, tenant and landlord, and so forth. The secular movement of prices may continue for 25, 30 or 40 years. No one can assign any definite limit to the extent of such a movement. India has already suffered from one secular movement of exchange during the period of depreciation of silver from 1871 to 1896. It would seem highly undesirable to adopt the policy of stabilisation of prices in India, when that might involve the continuous secular movement of exchange without any foreseeable limit.

6. It appears to me that a very strong argument against India undertaking a policy of stabilisation of prices by means of a fluctuating exchange is the discouragement this gives to the movement of capital. There are still enormous and most profitable openings for the investment of capital in India both under Government control and private enterprise. It is a benefit to India that the supplies of capital available in the country should be largely supplemented from abroad, providing only that no unfair monopoly is given to or created by foreign concerns. The risk of any fall of exchange is quite sufficient to deter English investors from purchasing rupee securities otherwise sound and attractive.

7. The foregoing objections to a policy of stabilisation of prices should be interpreted only as an objection to an isolated effort by India with this object. I should be in favour of India becoming a party to any international convention which might be established for the purpose of regulating the creation of credit money with a view to obtaining an approximate stabilisation of world prices.

8. As regards the effect of a rising or falling rupee and of stability at a high or low rate on trade and industries, I may refer to my book, "Money Banking and Exchange in India," Chapter XVIII and F.E., Chapter X. I should like to add that Mr. B. F. Madon* has tried to show that the prejudicial effect of a high exchange on Indian industries does not extend only to the period during which an exchange is rising, and during a short period thereafter, during which prices, wages, etc., are becoming adjusted to the new level, as commonly supposed. He points out that mills and factories are burdened with overhead expenses representing commitments made when exchange was at a lower level and the price of the produce comparatively better. He points out also that it is not easy to reduce wages, even though the cost of living be slightly reduced. This is undoubtedly true as regards skilled workers, and the recent strike of the Bombay mill workers is another fact that goes to support what was previously known to be the usual experience. Mr. Madon is probably correct that up to a certain percentage of its cost of production, including normal profits, the mill company is more or less permanently burdened by the rise of exchange, perhaps on 30 per cent. or so of its cost of production. This is one amongst several strong arguments against any attempt to establish exchange on a rate of 2*s.* gold; but, if there is in contemplation a change by 2*d.* only, this amount of burden on the existing industries is small in comparison with other components of the cost of production. I do not, therefore, agree with Mr. Madon that a fixed exchange at 1s. 6d. will place any serious permanent burden on the mill industry. There would be no such effect upon newly-established industrial undertakings which made their investment of capital with the advantage of the higher rate of exchange, and present prices of machinery.

9. *Question (2)—Standard and Rate.*—The world seems inclined generally to go back to the gold standard. All countries which have recovered from depreciated paper have adopted the gold standard, paper being the principal currency actually in circulation, but being exchangeable into gold theoretically for any purpose, but practically for export purposes only. Gold must undoubtedly continue for at least another half-century to be the principal means of settling international indebtedness, until some form of international credit currency may be brought into circulation. I am of opinion, therefore, that India should take measures which will bring her into line with the most advanced countries of the world.

10. This would be achieved by putting India definitely on the gold standard, the rupee being defined as a certain weight of standard gold, and all paper money and silver rupees being merely representative of the standard gold coins. As stated more in detail below, I think that a gold 10-rupee piece should be minted in India to an unlimited extent; and be issued in exchange for gold, weight for weight, that is, free of charge for coining (debiting cost to profits on rupee

* B. F. Madon, "Exchange Falacies Exposed on India's Exchange Problem," Part II, pp. 139 and 146.

coinage), so that gold might come into circulation so far as the people desire it. Silver rupees and half-rupees would remain unlimited legal tender. The system of currency would thus be similar to that of France before the War or the United States.

11. The rate at which the rupee should be thus stabilised should, in my opinion, be 1*s*. 6*d*. In other words, the rupee should be defined by law as consisting of 9·24558 grains of standard gold; that is to say, 8·47512 grains of fine gold.

12. My reasons for advocating stabilisation at 1*s*. 6*d*. are: Exchange now stands at 1*s*. 6⅛*d*.; and it is obvious that Government can keep it indefinitely at that figure by further issues of notes against sterling securities whilst the trade balance remains favourable, or by sale of the sterling securities of the P.C.R. and G.S.R. in case the balance of indebtedness becomes unfavourable. I recommend the rate of 1*s*. 6*d*., because there will be the least disturbance to trade and industries by making permanent a rate which has already been operative for several months. That rate is more satisfactory than reversion to the rate of 1*s*. 4*d*. on the ground that it gives better protection to the currency system against a rise of the price of silver, which is by no means an impossible contingency with the ever-expanding use of silver in industries, in which photography has wider and wider applications. To raise exchange to 2*s*. would have a very depressing effect upon industries and agriculture, and the lowering of the general price level which would result must operate quite unfairly on debtors and tenants. I regard the 2*s*. rate as being outside practical politics. The disadvantage of the 1*s*. 6*d*. rate is that the rupee would not then be an aliquot part of the sovereign. Hence it would not be advisable to make sovereigns legal tender. In substitution for sovereigns there would be minted in India 10-rupee gold pieces of the same fineness, and perhaps five-rupee pieces. I see no objection myself to demonetising all the sovereigns now in India, as they are not in circulation. If, however, the Commission should think it essential to make sovereigns legal tender in India, this would, in my opinion, necessitate the fixing of the rate of exchange at 1*s*. 8*d*., so as to make the sovereign worth Rs. 12.

13. *Question* (3).—The raising of the rate of exchange to 1*s*. 8*d*., if carried out immediately, as it could be, by contracting the paper currency reserve, would have a further depressing effect upon industries and agriculture, though not, of course, to anything like the extent which would be caused by raising exchange to 2*s*. By waiting for a general rise of prices throughout the world a rise of exchange to 1*s*. 8*d*. could be effected without lowering prices in India. The rise in other countries would simply not take effect in India until exchange had reached and been stabilised at 1*s*. 8*d*., when any further rise of prices outside India would have its effect upon Indian prices. A rise of world prices will probably not be deferred beyond 1928. In the ordinary course of the business cycle (trade cycle) prosperity of trade and rising prices may be expected during the years 1928-1930, for reasons which I have given in "The Future of Exchange" (pages 115-6).

14. *Questions* (4).—(*a*) To maintain the rupee at a rate selected it is only necessary to sell sterling securities of the P.C.R. and G.S.R., and to reduce the paper currency circulation by the equivalent amount. This deflation must lower prices in India and have a steadying effect on exchange. The deflation necessary to maintain exchange, if carried out in consultation with the banks, cannot have the effect of inducing a financial crisis or other serious results. The banks should be cautioned to adopt the policy of discouraging extensive inflation of credit during a period of prosperity and rising prices. It is the over-expansion of bank credit, as well as of the paper currency circulation, which makes deflation so uncomfortable a process. If the banks should not, in fact, work harmoniously with Government it might prove difficult to maintain exchange; and it is for this reason that I think there ought to be a considerable amount of gold in circulation in India, and that gold should commonly be held by joint stock banks as part of their cash reserve, which is not now the practice.

(*b*) As regards the future of the G.S.R., I have already ("F.E.," pp. 216-20) advocated the abolition of the G.S.R. by fusing it with the P.C.R. There would thus be an addition of something over 50 crores of rupees worth (at 1*s*. 6*d*.) of sterling securities to the P.C.R., which would be utilised to pay off an equivalent amount of rupee securities held in reserve. I cannot see that there is any object in holding any rupee securities in the reserve, except to fill up the gap remaining after taking account of the metallic portion, and the sterling

securities and bills of exchange. It appears to me that the G.S.R., whether maintained separately, or fused with the P.C.R., must be utilised in the same manner. Existing as a separate entity rupees must be locked up in India out of circulation to the amount equivalent to the reverse sterling drafts drawn on that reserve. If notes in circulation were locked up the effect would be precisely the same as if silver rupees or gold were transferred from the P.C.R. to the G.S.R. in India, the equivalent of the notes necessarily being cancelled. It would not be good practice to utilise the proceeds of sterling drafts on the G.S.R. as a loan to Government revenues in India, for this would leave the currency at the same volume and produce no deflation, hence the effect upon exchange would be purely of a momentary character. The phenomenon observed in 1920, when the circulation was not contracted to correspond with the sales of reverse councils, would be repeated on a scale corresponding with the circumstances.

15. It may be objected that if the paper currency is necessarily reduced by the amount of the sales of sterling drafts, the deflation would be too rapid if the demand for sterling drafts were fully met. Too rapid a deflation might put banks in difficulties. The best reply to this is that the circumstances would necessarily have to be closely watched at the time the deflation was being carried out, and if the pressure on banks seemed to be becoming unduly severe the notes cancelled on account of sales of sterling drafts could be, to a certain extent (say, 25 to 40 per cent.), replaced by notes issued against commercial bills of exchange, or against Government of India securities actually purchased in the stock market. I regard the actual purchase of existing securities in the open market as preferable to the issue of Treasury bills to the currency reserve, i.e., the " created securities."

16. *Metallic Portion of P.C.R.*—This may be a convenient place to state that, in my opinion, the permanent constitution of the P.C.R., as defined by the Act of 1920, required an unnecessarily large backing for the note issue. Even assuming rupees 12 crores of notes issued against commercial bills, the minimum holding of gold and silver would still be over 45 per cent. of the total circulation. It is difficult to fix a minimum which does not make the ordinary holding too large. In view, however, of the increasing use of paper currency, especially if one-rupee notes are re-issued, a minimum metallic holding of 30 per cent. of the total circulation, including the issue against bills of exchange, ought to be sufficient.

17. *Question* (5).—I think the control of the note issue is best left as it is for the next 10 years at least. I am altogether against transferring to the Imperial Bank the sole right of issue of notes in India, such notes bearing only its own promise to pay. The quantity would be enormous—in a few years there might be 200 crores outstanding. This liability completely overshadows the banking liabilities; and if, as in central banks of the Continental model, there were no separation of the banking and issue departments, a heavy drain of rupees or gold for encashment of notes, much less than that which occurred in 1918, would shake confidence in the stability of the bank, and lead to heavy withdrawals of deposits. Government would be forced to give a complete and unconditional guarantee of the bank's liabilities.

18. There would be less risk if the bank had a separate issue department on the model of the Bank of England, closely regulated by law, and making a separate weekly return like that of the present currency department. I fail, however, to see where the advantage would come in. If it is supposed that handing over the management to a bank would be a safeguard against inflation, I would reply that a situation which would lead a Government to inflate its note issue would almost certainly cause it to demand accommodation from its banker. No central bank could refuse to meet the dire financial needs of a Government in difficulties; indeed, we have seen in Germany and France how the issuing powers of central banks are legally extended when the exigencies of the financial situation demand it.

19. The burden of managing a huge note issue ought not to be thrust upon the Imperial Bank without most careful consideration. I would venture to suggest that the members of the Commission should make themselves familiar at first hand with the very intricate business carried on in the currency offices of Calcutta and Bombay. The work connected with forged notes and false claims on damaged notes might prove troublesome to senior bank officials, who would be responsible, though not normally attending to details.

20. If the transfer should be made it is essential, in my opinion, that the notes be issued by the bank on behalf of Government, the onus of paying them resting on the Government. Some officer of Government would have to audit the work of the bank continuously in its issue department. No regulations could be framed as to the backing of the note issue, unless the issue department was distinct from the banking department; that is to say, no regulations which would not impede ordinary banking business. The home remittance business must be transferred to the bank if the management of the paper currency is transferred, because there must be a common policy with the India Office in the sale of rupee drafts in London or purchase of sterling in India in times of favourable balance of trade, and likewise in regard to reverse councils.

21. As regards the policy as to the issue of notes of small value, I think the more the use of small notes is popularised the better. The issue of one-rupee notes has ceased on account of the expense of renewal. On this point I would like to make two suggestions. (1) The cost of printing may be reduced in the following ways: (*a*) by reducing the size of the note to 4 in. by $2\frac{1}{4}$ in.; (*b*) by having no printing on the back— the picture of the reverse of the rupee is not necessary; (*c*) by omitting the number, which serves no useful purpose on small value notes. Each series of 100,000 notes could be numbered on the plate itself, and that would be sufficient for accounting purposes. Silver rupees are not numbered. (2) The standard of cleanliness adopted for the one-rupee notes is unnecessarily high. In the currency offices notes are withdrawn for destruction, though only slightly soiled. From what I have been able to observe, I should say that the same standard of cleanliness is aimed at as for the five and 10-rupee notes. If it is considered that the prevalence of dirty notes in circulation facilitates the passing of forged notes, I would suggest experiments being made with the cleaning and fumigation of dirty notes at currency offices.

22. The one-rupee notes were certainly very popular, and should, in my opinion, be issued again. For about three months after the cessation of issue of one-rupee notes was announced I made a habit of observing with what form of currency people made small payments in shops, post offices, railway stations, etc., in Rangoon. My estimate was that amongst the middle class and clerical class, whether European, Burmese, or Indian, over 90 per cent. of payments of sums between one rupee and 10 rupees were made with one-rupee notes, and less than 10 per cent. with silver rupees. The books of 25 one-rupee notes, bound in a cover, which were formerly issued, were a great convenience. I am sure well-to-do persons would be willing to pay something extra for having this convenience, and I suggest that a charge should be made for such books of amount equal to the cost of the note forms in the book and the binding. If the books were issued through banks only there would be no difficulty about collecting the charge of 3 or 4 annas per book.

23. *Question* (6).—As I have recommended above that a rupee defined in gold should be the standard coin of India, I am strongly in favour of gold coins of 10, and perhaps five, rupees being minted in India. One mint only need undertake the minting of gold, preferably Bombay. It is, perhaps, worthy of remark that the objection of the British Treasury to the coining of sovereigns in India, which has been adversely criticised in India, is easily intelligible, for it was not proposed to establish a branch of the Royal Mint in India, as in Australia, and gradually the gold currency of England might have come to be composed mainly of sovereigns coined by the Government of India.

APPENDIX 45.

Statement of evidence submitted by Mr. T. K. Duraiswami Aiyar, Acting University Professor of Economics, Madras.

INTRODUCTION.

1. What is the need for an elaborate investigation of the currency and exchange of India? It is because we do not have a definite and stable standard of value. It may, however, be said that a rupee is our unlimited legal tender, and that it contains 180 grains of standard silver. Can anything be more definite than that? But there is the difficulty presented by the sovereign also being legal tender at the rate of rupees 10. Thus, while for purposes of legal tender the rupee is equivalent to 2*s*., the rupee is, as a matter of fact, fluctuating in value, and stands now at about 1*s*. 6*d*. The statutory rate of 2*s*. happens thus to be a fictitious and inoperative ratio, and the actual value of the rupee in terms of gold is left within certain limits to the manipulation of the Finance Department of India. It is true that it is not within the power of the Finance Department to manipulate the exchange value of the rupee in whatever way it chooses. The events that followed the acceptance of the Babington-Smith Committee's recommendation are a sufficient testimony to the very limited powers of the Government of India in the matter of manipulating the exchange rate. But none the less, that power exists. The situation at the present day is, in some respects, analogous to the position of Indian currency between 1893 and 1898. What might be called the growing up to the currency happened then. The Government abstained from issuing fresh rupees, and the growth of the volume of trade and exchanges in the absence of fresh coinage tended to enhance the exchange value of the rupee. Something corresponding to that experience has been happening in India since 1920. Only the situation in recent years has been complicated by the dislocation of international commerce and its slow and painful recovery to normality. There has been also an uncertainty as regards the value of gold. But, making allowance for these factors, there is an unmistakable anology between the events after 1893 and after 1920.

2. What are the considerations to which the Currency Commission will have to give due weight? The observation can be easily made that the Currency Commission should make such recommendations as would promote the economic development of the country by placing the country in possession of a sound currency system.

3. The Indian Currency Commission of 1919 was appointed at a time when the world conditions of currency and exchange were much unsettled. The occasion for the appointment of that committee was the inconvenience that resulted from the absence of a stable rate of exchange. Since foreign trade was becoming a gamble it was felt that the maintenance of a steady exchange rate would contribute to the expansion and prosperity of the foreign trade of the country. The factors that influence exchange are so various and uncertain that it was not surprising that the Government of India did not succeed in carrying out the recommendations of the Committee. The efforts that the Government of India actually made in that direction were attended with injurious consequences for the finances of the country. The exchange rate was later on left to take care of itself, and there was a more or less steady fall in the exchange value of the rupee from the height to which it reached early in 1920, the rate for February, 1920, being $32\frac{5}{16}d$. The fall in the exchange value was due in the main to the fall in the gold price of commodities all over the world. Let us try to see how exactly the fall of gold prices since 1920 influenced rupee prices in India. When world prices began to fall what happened in India as regards prices appears to have been as follows.

4. Indian credit organisation being backward there was no way of bringing about parity between Indian prices and falling gold prices in the world by withdrawing credit currency in India. The selling of reverse councils led, however, to a cancellation of a quantity of notes, and the note circulation between 1st February and 15th September had been reduced from 185 crores to 158 crores. But the unfavourable nature of Governmental finances was such that the Government of India could not contract currency on a large scale by cancelling notes, and thus bring about an equivalence between the amount of notes in circulation and the paper currency reserve, the gold and securities contained therein being revalued at 2*s*. the rupee. This led to

the "created securities" forming part of the paper currency reserve. Whereas on 31st March, 1920, Indian Treasury bills among the securities in the paper currency reserve amounted to 9·58 crores, they amounted to 58·07 crores on 31st March, 1921. The contraction of currency consisting of rupees and notes during 1920-21 was to the extent of 3,158 lakhs. This was not enough to bring about parity between Indian and world prices of commodities entering into international trade. The requisite parity had to be brought about mainly by the fall in the exchange value of the rupee, just as the increase of currency required in India in 1917, 1918, and 1919 was secured by the rise in the exchange value of the rupee as well as the minting of rupees and issue of currency notes. The climax to which Indian index number of prices reached was 218 in January, 1920. Indian prices declined by 35 points between January, 1920, and July, 1921. The index number of prices of the United States Bureau of Labour statistics reached its climax of 247 in May, 1920, and by July had declined by 106 points to 141; the Board of Trade (United Kingdom) index number of prices had declined from its climax of 326 in May, 1920, by 132 points to 194 in July, 1921. It will be evident that whereas Indian prices fell by 16 per cent., prices in the United States of America fell by 43 per cent., and English prices fell by 40 per cent. Since, as was pointed out already, parity between Indian prices and world prices of commodities entering into international trade could not be reached by the fall of rupee prices, it was reached by the only other way, the fall in the exchange value of the rupee. In the report on the currency operations for 1920-21 and 1921-22 the explanation for the fall in the exchange value was sought in the fall in the price of silver. Such an explanation, in the light of what has been already said, is not tenable. For an increase in the price of silver will force up the value of the rupee in terms of sterling, and thus lead to a rise in its exchange value, but a fall in the price of silver by itself has no effect on the exchange value of the rupee.

(1) *Is the Time Ripe for the Stabilisation of the Rupee?*

5. It is now nearly six years since the attempt to stabilise the rupee at 2*s.* gold was made and resulted in failure. The value of gold since 1921 has not been fluctuating much, as can be seen from the index number of prices of the United States Bureau of Labour Statistics, whose average for 1921 was 147; for 1922, 149; for 1923, 154; and for 1924, 150; 1913, average being taken as the base equivalent to 100. The gold prices of commodities that enter into international trade in different countries were showing increasingly close agreement from 1922 onwards. The "Federal Reserve Bulletin," of September, 1923, observes as follows: "During the past year there has been a pronounced tendency for prices in the United States of America and foreign countries and foreign excxhange rates to work towards a closer adjustment, with the consequence that prices, when expressed in terms of gold (or dollars) are more nearly on a common level than at any time since the War." In April, 1924, the Swedish Riksbank resumed the redemption of the notes in gold. In the same month the Dawes Committee on Reparations made its report, and recommended the linking of the German currency to gold. The League of Nations took in hand the financial reconstruction of Austria, and its currency was also linked to gold. Australian and South African exchanges had reached gold parity, and Great Britain in April, 1925, restored the gold standard, sterling reaching parity with gold. At the present day in many countries the gold standard has already been restored, and in other other countries they look forward to the establishment of it. Countries like France and Italy find it difficult to balance their Budgets, and this circumstance, combined with the fact that the depreciation of their currencies amount to about 400 per cent., explains why they find it difficult to gratify their wishes to have the gold standard restored on the basis of the old parity. France looks with admiration on the efforts that England successfully made to restore the gold standard last April.

6. In so far as the stabilisation of the rupee is concerned, as long as there was uncertainty about the value of gold, i.e., the course of gold prices in the world, and about the extent to which the gold standard would be adopted by the various countries of the world, there was much to be said in favour of a policy of "wait and see." While the rupee did not reach 1s. 4d. gold, there was a case for allowing natural forces to work themselves out since any action to raise the value to 1s. 4d. gold would have involved, in the absence of a general rise of gold prices, deflation, leading to further monetary stringency, which was very pronounced in India in the winter of 1923 and 1924. But when the rupee reached 1*s.* 4*d.* gold

about October, 1924, the Government of India had to make up their mind as to what they should do with reference to the exchange value of the rupee. Various countries were returning to the gold standard; the United States of America possessed it, and England definitely looked forward to it as a goal which should be reached as early as possible. In these circumstances it looked as if there would not be any violent fluctuations in the value of gold in the future. The Government of India, without drifting futher, might have taken a definite decision. The Royal Commission on Indian Currency might well have been appointed much earlier than it was actually done. Gold prices all over the world fluctuated within narrow limits only through 1924. The trade of India would have received considerable assistance if a Royal Commission had been appointed about August, 1924, and had reported by April, 1925. The uncertainty over the future exchange value of the rupee that has been afflicting the Indian commercial world might have been avoided. The monsoons were favourable, and the Indian balance of trade through 1922-23 and 1923-24 was on the right side, outside demand for Indian commodities was improving, and gold to the value of about 70 crores during those two years came into the country. All these were favourable conditions, which might have encouraged the Government of India to take steps for fixing the policy for the future. The time is thus already ripe for taking in hand the stabilisation of the rupee.

Internal Price Stability and Stability of Foreign Exchange.

7. Stability of internal prices has been recently set forth as an aim to be reached. It is by itself an important consideration that helps forward business activity. While internal prices are stable more or less normal conditions obtain, and steadiness of industrial and commercial operations is promoted. But recently it has been put forward as something to be maintained, as against the stability of the external value of the rupee. It is doubtful if that proposition can be maintained. We do not find in the literature bearing on Indian currency overwhelming emphasis on stability of internal prices till 1919. It was true that between 1873 and 1893 there was comparative stability of internal prices in India, whereas gold prices were falling in the rest of the world. In cannot, however, be contended that such steadiness of internal prices promoted in any special manner the prosperity of the people, while the fall of gold prices in gold standard countries retarded the prosperity of those countries. In questions relating to currency, which is affected by multitudinous factors, plausible chains of reasoning may be forged by over-emphasising particular factors to the neglect of others. Careful reasoning and trained judgment are necessary before pitfalls could be avoided. Between 1873 and 1893 the physical volume of production in India cannot be said to have grown in any remarkable manner on account of stability of internal prices. That period when gold prices were falling witnessed an outburst of productive activity in Europe and America that increased their relative economic strength as compared with the rest of the world. The very fall of gold prices was partly due to the increased production of goods in Europe and America owing to the application of science to agriculture and industry. The stability of rupee prices in India was due very largely to the fact that the real cost of producing agricultural and industrial commodities was falling in Europe and America concurrently with the fall in the price of silver. As agricultural commodities went down in price on account of the fall in the real cost of production due to the virgin soil of America having come under the plough and to scientific cultivation their gold prices fell. Their rupee prices, however, did not fall, since the gold price of silver concurrently fell. The real cost of production of manufactured goods also fell in Europe and America during the same period, and their gold prices fell. The rupee prices, however, did not fall appreciably, since silver, the material out of which rupees were coined, fell in its gold price simultaneously. Thus it will be found that the stability of rupee prices in India between 1873 and 1893 did not promote in any special manner the prosperity of the people of India. The fall of gold prices was not accompanied by a decrease of economic strength in the gold standard countries. That fall, as already pointed out, was itself partly due to conditions that indicate the economic strength of those countries. It was due to a large increase in the physical volume of production, a stationary gold production and the effective desire of many countries to adopt the gold standard. The foregoing considerations will help us to realise that the stability of rupee prices in India between 1873 and 1893 is not any matter on which India should specially congratulate herself. It is not, however, intended to suggest that, comparing one generation with another, it is not harmful that the standard of

value should show great variations in purchasing power. This is an evil, since contracts and obligations that extend over a long period like 99 years' leases and Government long-term loans, lose their significance, and unmerited gains and losses result. What is urged is that slightly rising and falling prices are not an inevitable concomitant of industrial stagnation. Another illustration may be drawn to bring home to us the contention that has been here put forward. Between 1900 and 1914 prices were rising in India, and yet no period in the history of India showed such economic progress as it was the good fortune of India to experience as the period above referred to. Thus prices tend to rise and fall on account of various factors, some of them being the bountiful character of harvests, inventions, changes in fashion, and discovery of the precious metals.

8. In 1919, when Indian prices reached a great height on account of inflation in the rest of the world, the Government of India had an anxious time of it. The exchange value of the rupee had to be put up steadily from 1*s*. 4*d*. to 1*s*. 5*d*., 1*s*. 6*d*. and 1*s*. 8*d*. The Government of India was oppressed by the steady rise in the price of silver and the fears regarding the further rise in the price of the metal. Indian trade was quite prosperous then, and the Government of India was so impressed with the importance of exchange stability that their representation to the Secretary of State laid great emphasis on a stable exchange value for the rupee. They were prepared to face partial inconvertibility of the note in India with a view to securing stability of exchange. It was in those circumstances that Sir Lionel Abrahams pointed out that stability, though very important, was not an essential condition of health for international trade, and that, in view of the height to which prices had already reached, the interest of stability of internal prices, as against a further rise of prices, should be a more important governing consideration. For the first time we find in Anglo-Indian currency discussions that strong emphasis was laid by an authoritative official of the India Office on internal price stability as opposed to exchange stability. The point of view of Sir Lionel Abrahams cannot be urged in support of a policy in favour of maintaining internal stability as opposed to exchange stability at the present day. For when he laid emphasis on internal price stability Sir Lionel had regard to the then situation of prices in the country and the effect of the proposals made by the Government of India. He expressed his opinion that the Government of India was rash when it was prepared to reach exchange stability in the then disturbed condition of world exchanges even at the risk of making the note inconvertible in India. Already prices had gone up considerably in India, the index number for August, 1919, being 204, compared with 100 for July, 1914. The adoption of the proposals made by the Government of India might lead to prices rising further still, which would put industry and the administration to a very severe strain. When we take into account the circumstances in which Sir Lionel Abrahams urged the importance of internal price stability, it can be clearly seen that his argument cannot apply to the present situation in India regarding prices and exchange stability. The year 1919 was a period of greater uncertainty regarding currency and exchange than the period since 1924. America had not gone far in the accumulation of the huge stock of gold which has now become in one sense a burden to her. Inconvertibility of notes might have become in 1919 a danger to political stability, which was being subjected to attack from a vigorous and sustained nationalistic propaganda. Already the rise of prices in India involved the danger of political unrest in the cities and towns, and it was in such an atmosphere that Sir Lionel Abrahams spoke of the need for internal stability of prices as against exchange stability. The Government of India took an equally strong line regarding the importance of exchange stability, and Mr. Gubbay, who gave evidence on behalf of the Government of India before the Babington-Smith Committee, spoke in no uncertain terms about the essential nature of exchange stability for Indian trade. Judging between the position taken up by Sir Lionel Abrahams and the Government of India, we are inclined to think that, having regard to the then conditions, Sir Lionel was, on the whole, right, and the Government of India, on the whole, wrong. This observation only signifies that in the prevalent condition of rupee prices world trade and uncertainty regarding the future value of silver the emphasis that the Government of India laid on exchange stability was overdone. The report of the Babington-Smith Committee in favour of 2*s*. gold and the failure of the efforts made by the Government of India to maintain that rate, are now well-worn themes, and need not be dilated upon.

9. So much for past history. Let us now turn to consider at length the contrast between internal price stability and stability of foreign exchange. Internal price stability even in normal times cannot be secured as effectively as

exchange stability. In normal times exchange rates move only within the export and import gold points. Any movement beyond these points is prevented by the export and import of gold. There are no such limits to the rise and fall of internal prices. The latter depend on various factors, like the total volume of trade, the amount of currency and credit, and the spirit of confidence or depression that prevails in the business world. Exchange stability can therefore be attempted with greater success than internal price stability. It may, however, be asked whether there is any essential conflict between the two. A close analysis may reveal compatibility of exchange stability with internal price stability. If it is found that we should sacrifice the one or the other the consequence of each on trade, industry, and general prosperity should be estimated. The very conception of price stability seems to involve that prices have been adjusted to costs of production and a certain condition of normality has been reached. It is impossible, however, to secure absolute stability of internal prices, nor is it desirable. General prices cannot but go up and down as a result of various causes already indicated. Stability of general prices may be deceptive, for such stability is compatible with large changes in particular prices, and industry and commerce are affected by the condition of particular prices, and not so much of general prices. The emphasis on price stability as opposed to exchange stability is noticed in the position taken up by Professor Keynes in England and Sir Basil Blackett in India. In England, where a strong trade union organisation stands in the way of wage adjustments to falling prices, a fall in prices due to a rise in exchange may affect production adversely by cutting down the margin of profit or by replacing profit by a loss Increasing unemployment may thus be brought about. The industries producing goods for export fill a very important place in English economy, and such industries will immediately feel the effect of a rise in exchange. If such a rise takes place in a period of industrial depression the consequences may be very harmful. Let us see to what extent these considerations apply to India. Since about 70 per cent. of the population depend on agriculture, and much of the production is for use and not for the market, price stability is not of outstanding importance. The bulk of the national income is affected by monsoon conditions, and it goes without saying that the supply of agricultural commodities will vary according to the amount and distribution of rainfall. Prices of such commodities cannot but vary from year to year. Thus variations in prices of such commodities is a factor with which the agriculturist and the trader always reckon. It is not denied that violent fluctuations in prices disturb trade, promote speculation, and thus stand in the way of steady progress. It has been, however, the experience of modern times that slightly rising prices are most often associated with increased production and trade. Confining ourselves to post-war events, we find that the index number of the Bureau of Labour statistics in the United States of America went up from the low point of 138 in January, 1922, to 155 in July, 1922. This rapid rise of prices was due in the main to the growth in the physical volume of production since the middle of 1921, indicating a rate of industrial recovery without parallel in American business. Production in America advanced 40 per cent., while prices went up 13 per cent. in 1922. The "Federal Reserve Bulletin," of April, 1923, connects the gradual recovery of British business towards the end of 1922, compared with that of American business recovery in the same year in the following words :—" British prices, which had remained steady in the first half of 1922, while American prices advanced, started to rise towards the end of 1922, while prices in the United States of America remained stable, and have risen more rapidly than American business during the last two or three months. The lag in British prices, compared to American, corresponds to the more gradual recovery of British business." Thus we find rising prices accompanying increased production. The importance of internal price stability is therefore liable to exaggeration.

10. Exchange stability, however, stands on a slightly different footing. It is true that foreign trade has flourished even while the exchange value of the rupee has undergone fluctuation, e.g., in the period before 1893 and the period since 1917. Since India is a producer in the main of foodstuffs and raw materials, and since she has to import manufactured goods essential for modern life, means will be found for exchanging surplus raw materials and foodstuffs for manufactured goods. Only trade will have to pay a heavy price on account of absence of exchange stability. There is severe competition in international trade and wholesale traders engaged in the export and import trade of the country work on the basis of a narrow margin of profit on each unit of their turnover. Exchange fluctuations are likely to cut into the narrow margin of profit or bring about undeserved gains. The uncertainty involved destroys a large amount of trade,

which otherwise will flourish. Speculation is promoted and healthy activity in trade and commerce is checked. The commodities turned out by the organised industries of the country have to compete with imported good, and exchange fluctuations give rise to unmerited gains and losses. The continuity of industrial operations is interfered with. As the exchange value of the rupee rises Indian industries find that the prices of their output fall, while their costs of production do not fall as readily. If such a rise in exchange takes place in a period of boom it results in a diminution of extravagant profits. If it does occur in a period of depression disastrous consequences follow. Wage earners resent a cut in wages and the employer finds that he cannot make normal profits. Export and import of capital are resorted to with a view to take advantage of exchange movements according to the forecast made by speculators. Consequently, the position taken up by the various Commissions that investigated the question of currency and exchange about the importance of exchange stability is quite sound. It does not, however, involve the position that a forcing of the pace is justifiable with a view to securing exchange stability. In India there has been recently exchange instability under a non-automatic system. The observations of the Babington-Smith Committee are still apposite in this connection. They say, " Whatever the evils and inconveniences of instability may be, they are increased if the movements of exchange are brought about not by automatic action of economic causes, but by administrative acts. The commercial community are prepared to deal with fluctuations in exchange as well as with fluctuations in the other elements entering into a transaction, and to provide against any risks that may arise; but they feel that if official action intervenes to interpret the play of natural forces, and to give effect to them an element of uncertainty is introduced which is beyond their reckoning. However complete the integrity, and however great the intelligence on which official action is based, an automatic system, which does not depend on such action for its operation, is greatly to be preferred. The restoration of the gold standard at the end of last April in England shows that British authorities considered such restoration as of greater importance than any regard paid to the stability of index number of prices within the country. The overwhelming weight of British commercial and banking authority was thrown on the side of the restoration of the gold standard by reaching parity of gold with sterling at the old rate.

11. It does not matter whether the rupee has a high exchange value or a low one when once industry and trade have adjusted themselves completely to the high or low value. A high exchange value for the rupee, other things remaining the same, means low rupee prices and a low value for the rupee high prices. Whether prices are high or low, trade and industry will function normally after necessary adjustments are made, and wages and profits will tend to conform to the contribution that labourers and employers respectively make to production. Interest rates will depend on the relation between the supply of the loan fund and the demand for it. The fact that the exchange value of the rupee is high or low does not matter. As regards the influence of a high or low rupee on national finance, since land revenue in ryotwari areas is fixed for a term of 30 years, high rupee means a greater real burden for the ryot. Interest on national rupee debt already contracted means a greater real burden for the State when a high rupee is established. Other taxes tend to adjust themselves to high or low rupee with comparative ease, though here also there is some economic friction.

12. The salaries of Government officials may be reorganised with reference to a high or low rupee, though there is a lag between the establishmment of a low or high level of prices, and the readjustment of salaries As regards the influence of home charges, a high rupee involves the employment of a smaller number of rupees for their payment. But though in terms of rupees the home charges become less, their real burden for the country is not affected by the rupee being either high or low. The Government may be said to be favourably affected by a high rupee in the matter of the meeting of the home charges if the revenues that the Governmment derives from the people in terms of rupees do not fall in amount proportionately to the rise in the exchange value of the rupee.

13. We shall then turn our attention to the effect of a rising or falling rupee. As the exchange value of the rupee increases the exporter of Indian produce, other things remaining the same, gets a smaller number of rupees for his produce. The producer of commodities which are not exported, and which have not to compete with imported goods, is not affected adversely to the same extent as the producer of commodities that find their markets abroad, or that have to compete with imported goods. For the prices of commodities that do not figure among the items of international trade will only be slowly affected by the rising rupee.

The imported commodities will fall in rupee prices as a result of a rising rupee, and to the extent that the Indian producer, agricultural, and industrial consumes imported commodities he gains from the fall in their prices. The producer of commodities which do not enter into international trade, and whose market is local, is in a most favourable condition if he consumes in the main imported goods. A rising rupee will bring down the prices of wheat earlier than rice, since the outturn of wheat in India forms a small proportion of the total world output of wheat, for which reason the prices of wheat in India will closely conform to the world price of wheat. The price of pulses, jowar, ragi, chillies, and similar commodities, which are consumed in the main locally, will be affected very slowly by a rising rupee. A falling rupee, on the other hand, will favour the producers of commodities, the bulk of which is sold abroad, while the producer of pulses and jowar will not find his products rising in price corresponding to the fall in the exchange value of the rupee until after a considerable lapse of time. Industries in India produce commodities that have to bear the brunt of foreign competition. A rising rupee means lower prices for their output. Costs of production, especially the wages of labour, local taxes, debenture interest, and railway rates, will not fall with the same rapidity, and the result is depression in industries. If the rise in the rupee occurs in a period of boom the soaring profits will be affected; if it occurs in a period of industrial depression disaster may overtake the the industries.

14. A rising rupee means that the revenues fixed in rupees collected by the State embody greater purchasing power. But *ad valorem* revenues, say, customs duties, will bring less revenue in rupees as prices fall due to a rising rupee. Income tax may be affected adversely if the rise in the rupee occurs in a period of industrial depression. The salaries paid by the State will mean greater purchasing power, and the State employees are benefited by a rising rupee. Since a smaller number of rupees will buy a pound sterling, sterling obligations could be discharged by a smaller number of rupees. Interest on rupee debt is a greater real burden. Land revenue forms a much smaller proportion of the total revenues at present than in the period before the War, and the revenues from customs duties and income tax tend to adjust themselves, unlike the land revenue, to a rise and fall in the value of the rupee. Consequently, the beneficial or adverse effect of a rising or falling rupee on national finance during recent years, when customs revenues and income tax together bring double the amount that land revenue brings, is not so great as was the case before the War. On the whole, Government finance may be said to be favourably affected by a rising rupee, though the good effect on national finance stands the risk of being exaggerated, and sufficient regard is not also paid to the consideration that what is gained by the State is only at the expense of the taxpayer. Further, the gains and losses due to such a rise are distributed indiscriminately.

15. *The Rate at which the Rupee should be stabilised.*—The rupee should be stabilised in terms of gold. The distinction between sterling and gold no longer holds good. Gold is international currency. It does not require much argument to prove that the rupee should be linked to gold. The rate at which the rupee should be stabilised is a ticklish question. The various factors that have to be taken into account in determining that question are—the future price of silver, the effect on trade and industry, the equities between debtor and creditor, the balance of trade, and the future value of gold. Taking first the price of silver, the rupee ought to be fixed at such a rate that there is no probability of the intrinsic value of silver becoming equal to the face value. The future value of silver is thus an important factor. Whereas commodities in general have increased in price by about 50 per cent., compared to 1913 and 1914, silver which stood at 28*d*. per ounce in 1914 now stands at about 32*d*. If silver were to stand at a price at the present day on a parity with the price of "all commodities" it must reach 42*d*. At 43*d*. per ounce the intrinsic value of silver becomes equal to the face value of 1*s*. 4*d*. This shows the danger that 1*s*. 4*d*. rupee would be subject to if the gold price of silver at the present day were to correspond with the gold price of commodities in general compared to pre-War prices. Thus the rate for the rupee is closely bound up with the future of the gold price of silver. If one bears in mind the freaks to which the price of silver has been subject during the past decade it is difficult to make any positive assertion with respect to the future price of silver. In these circummstances there is much to be said for fixing such a rate for the rupee that there will be no danger of the rupee going into the melting pot. Secondly, the effect of the rate on agriculture and industry has to be considered. The rate of 1*s*. 4*d*. means that the Indian agriculturist will have Rs. 150 for his produce now against Rs. 100 he got before the War if cereals and

raw materials correspond in their price to the price of "all commodities." But nothing is more striking than the fact that since 1921 the products of agriculture have lagged in price compared to manufactured commodities. The discrepancy in prices between the products of agriculture and manufactures is not, however, related to the rate of the rupee, and consequently from this point of view it is irrevelvant whether the rate is high or low. Since the agriculturist is heavily indebted a high rupee increases his real indebtedness. In this connection, however, it must be remembered that the purchasing power of the rupee is much lower now than in 1914, and even if the rate is 1*s.* 6*d.* the real burden of the pre-War debt is lighter. The burden represented by the land tax will be less if the rupee stands at 1*s.* 4*d.* than if it does at 1*s.* 6*d.* In the controversy that is carried on over the rate for the rupee the remark is often made that the agriculturist loses 40 crores of rupees as a result of the rise from 1*s.* 4*d.* to 1*s.* 6*d.* of the rupee. This statement cannot receive scientific support. It cannot be forgotten that the rise in exchange will bring down general prices in the country, and consequently the agriculturist will gain on his purchases. To the extent, however, his purchases are of commodities which are locally produced have only a local market, and do not suffer from the competition of imported goods, he will not secure the benefit of a fall in price unless time is given for the adjustment of the prices of such commodities to the rise in exchange.

16. Industry has been suffering from depression in India ever since 1921, and the recent rise in exchange has undoubtedly added to the difficulties. Though the main obstacle to the industrial revival is world impoverishment, the rise in exchange from 1*s.* 4*d.* to 1*s.* 6*d.* has been a contributory cause to industrial depression. When the cost of production, including wages, have adjusted themselves to the new rate that is adopted normal conditions set in.

17. Thirdly, the equities between the debtor and the creditor have to be taken into account. All pre-War debts contracted in gold represent less commodities now since gold prices have advanced about 50 per cent. If the rupee is fixed at 1*s.* 4*d.* the real burden of the pre-War rupee debts will decrease. 1*s.* 6*d.* rupee will mean also less real burden of pre-War rupee debts. The rupee debts of the Government of India will be more onerous with an increase in the exchange value of the rupee. The onerous nature of the burden will be obvious when it is realised that a large amount of rupee debt was accumulated in 1919, 1920, and 1921, when rupee prices of commodities reached a high level. If such debts are to be repaid in terms of 1*s.* 6*d.* rupee, the burden becomes onerous since 1*s.* 6*d.* rupee means lower rupee prices of commodities. The following table gives the approximate addition to the rupee debt and the index number of prices for 1917-18 to -1921-22:—

	Debt in Crores of Rupees.	*Index Number July, 1914—100.*
1917-18	81·1	147
1918-19	58·3	180
1919-20	22	198
1920-21	61·8	204
1921-22	39	181

18. Fourthly, the rate at which the rupee is to be fixed depends on the future value of gold. What the value of gold will be in the future is a difficult question to decide. When the world gets to be again humming with productive activity, and when the volume of world trade advances, and when various other countries struggling with depreciated currencies revert to the gold standard, the value of gold, it may be contended, might rise. But such a conclusion does not inevitably follow. The economy of gold which has been adopted under the pressure of war might persist, and gold actually in circulation might become a thing of the past. With the restoration of confidence in international relation credit may fill a more important rôle, and the velocity of circulation of currency may show an increase. Joseph Kitchin, a world authority on gold production, is of opinion that the annual gold production from 1924 to 1927 will be 385 million dollars, and thenceforward up to 1930 it will decline to 370 millions. The amount available for monetary purposes will be not less than 150 million dollars per annum. The Harvard Committee of Economic Research, in its letter of 10th June, 1922, said: "If, therefore, the general trend of commodity prices decline during the present decade this will be due to the financial policies pursued by the leading commercial countries, and not to shortage of gold." Balancing various considerations, one may hold the view that the value of gold may be in the future about what it is now.

19. Fifthly, the future course of the balance of trade is relevant. India has been enjoying a succession of favourable monsoons since 1921, and if an unfavourable monsoon overtakes India exchange might go down. This eventuality should not be lost sight of when a rate is fixed.

20. There is this general consideration with reference to the rate at which the rupee is to fixed. India was said to have gone on to the gold standard, and it used to be pointed out in the past that there was no essential difference between the power to import sovereigns and the right to have gold coined in a mint in India. 1*s.* 4*d.* *thus* was the rate that ruled from 1899 to 1917. The rupee was said to be a note printed on silver. India prospered under the rate of 1*s.* 4*d.* Though it may be said that 1*s.* 4*d.* need not be considered a fetish, there must be strong reasons before that rate is departed from. Especially if the Commission decides in favour of not minting fresh rupees in the future and of taking active steps to increase the proportion of gold and notes in circulation 1*s.* 4*d.* may be adopted for the rupee. On the other hand, if the gold exchange standard, as it was working till 1917, were to function, there may be the danger of the rupee going into the melting pot when the price of silver rises to parity with general commodity prices, unless a rate higher than 1*s.* 4*d.*, say, 1*s.* 6*d.*, the operative rate at present is adopted.

21. The rupee may be stabilised at 1*s.* 4*d.*, or 1*s.* 6*d.*, or 1*s.* 8*d.* What are the considerations to be taken into account before any of these rates or other rates are adopted? In favour of the 1*s.* 6*d.* rate it may be urged that the rupee has been maintaining that rate for about a year. This argument is only of slight importance, for, if the Government of India had not bought sterling in advance of their requirements in October, 1924, even 1*s.* 8*d.* might have been reached and if the Government of India were so minded they could have allowed the exchange rate to rise to 1*s.* 8*d.* It should be clearly understood that the fixing of a stable rate for the rupee should not be influenced by factors that might be of ephemeral duration. 1*s.* 6*d.* rate was justified in the budget speech of 1925 by the rate of gold prices between October, 1923, and October, 1924. Between 1921 and 1925 gold prices had been rising and falling. The policy of the Federal Reserve Board, the attitude towards the restoration of the gold standard in different countries, the rate of gold production in the world, the conditions of world harvests and the policy of various central banks, play on the value of gold and bring about fluctuations in it from time to time. We can easily conceive of gold prices falling from the level they reached in October, 1924. As a matter of fact gold prices have been falling since January, 1925. A stable rate for the rupee cannot be decided upon with reference to the short period fluctuations in the value of gold. If gold prices again begin to fall and if the succession of good monsoons since 1921 is broken by monsoon failure it will be difficult to maintain the 1*s.* 6*d.* rate The main reason advanced in favour of 1*s.* 6*d.* rate is that that rate is compatible with the stability of internal rupee prices and that a lower rate will mean increased rupee prices. If it is considered equitable that a rupee should have as much purchasing power as it had before the war in 1914 there is a case for allowing the rupee exchange steadily to rise further than 1*s.* 8*d.* and thus bring down rupee prices in India to the level in July, 1914. On the other hand if considerations of equity can be met by a depreciation of the rupee corresponding to the depreciation of gold since 1914, 1*s.* 4*d.* gold is the rate at which the rupee is to be stabilised. One controlling consideration with reference to the rate of exchange is the general state of trade and prosperity in the country. The rise in the exchange value of the rupee from 1*s.* 4*d.* gold to 1*s.* 6*d.* has been coeval with harm to the industries of the country. The cotton industry of Bombay, which is the pride of Indian enterprise has been hard hit among other things, by the rise in the exchange value of the rupee. The writer is well aware that the mill industry of Bombay is not carried on with as much efficiency as one should desire. Reserves were not built up in prosperous times on an adequate scale and costs are not reduced by efficient management. Various manufacturing enterprises in the country which have to meet foreign competition have been hit hard by the rise in exchange. Let us see if any compensating advantage has been secured by the agricultural interest from the rise in exchange. Rupee prices of agricultural commodities are less than what they would have been if exchange had not risen from 1*s.* 4*d.* to 1*s.* 6*d.* It is true that whereas the agriculturist gets less number of rupees for the produce which he sells, he has to give also a smaller number of rupees for the goods that he purchases. This point was stressed by the Finance Minister in his speech in January last. In this connection one point of importance is to be noted. The prices of commodities like cotton, wheat, oilseeds,

hides and skins and copra which constitute the bulk of the export trade of India must conform to world prices and any rise in the exchange value of the rupee immediately affects rupee prices of these commodities adversely and the agriculturist, other things remaining the same, gets a smaller number of rupees. The goods on which he spends his money in the main are not imported goods, the rupee prices of which also fall corresponding to the rise in the rupee exchange. The bulk of his expenditure is on goods and services whose markets are comparatively restricted. The prices of other goods do not react till after a lapse of time to the influence of a rise in exchange. The prices do not fall in conformity with the fall in the prices of commodities which have a world market. Thus it cannot be said that the producers of agricultural commodities that have a world market receive a full compensation, over a short period, for the fall in the prices of the commodities that they produce.

22. It has been urged that what the Indian is interested in is that his rupee should command the same commodities and services in the bazaar; ergo, steady prices in India are of greater account than stability in the exchange value of the rupee. This contention requires investigation. The bulk of the population of India,, amounting to 70 per cent., depend on agriculture, and, more than any other factor, agricultural prosperity, and therefore general prosperity of the country, depends on the monsoon. The average villager is not so much concerned with steady rupee prices as with high crop yields. In fact, the citizen in no part of the world is so much inured to fluctuations in prices as in India, where changes in the amount and distribution of rainfall are accompanied by changing prices of staple commodities. India is so unlike England, where stability in prices and wages are of greater importance. In India a very large proportion of production is still production for use and not for the market. Even production for the market is subject to all sorts of freaks on the part of the monsoon, and consequently price stability is not a factor of primary importance to the agriculturist. If you turn your attention to the manufacturer of commodities who fills a relatively less important place in national economy in India you will find that industrial progress of the country is also not helped by the so-called stability of internal prices rather than the exchange value of the rupee. Most of the industries of the country, like cotton, iron and steel, cement and woollen goods, have to compete with foreign goods, and while the rupee prices of the commodities which are produced in the country feel in their rupee prices the full effect of a rise in the exchange, the costs of production of these industries do not show a corresponding fall. Especially the costs of production represented by wages, which constitute a large proportion of the costs, do not show a fall. The industrialist thus is handicapped in his work. A change in the exchange value of a slight extent may turn a gain into a loss. Thus industry is handicapped without any corresponding advantage to the agriculturist. The great fall in the price of stock exchange securities is due, among other causes, to the rise in the exchange value of the rupee from 1*s.* 4*d.* to 1*s.* 6*d.* As a corrective to the overwhelming dependence of the population on agriculture industrial development of the country is a necessity of the first order. The industrial and commercial depression from 1921 onwards had already been subjecting the industries of the country to a severe strain. The cotton industry especially was suffering acutely from depression. The advantage which that industry would have derived if exchange had remained at 1s. 4d. gold was lost as exchange was allowed to rise to 1s. 6d. Difficulties, due to causes beyond man's control, have to be met as one best could. When the administration sets itself to influence the course of exchange by its policy a situation is created liable to considerable misunderstanding and vexation. It was pointed out that the rise in sterling prices of commodities between October, 1923, and October, 1924, would have led to a rise of rupee prices in India, and consequently the interests of price stability in India required the rise in exchange to 1*s.* 6*d.* It is rather unfortunate that the Finance Minister in his last Budget speech depended on the rise of sterling prices to justify the rise in the exchange value of the rupee. Such a line of reasoning commits the Government of India to the pursuit of a policy according to which action should be taken by the Government to bring about a fall in the exchange value of the rupee if the sterling prices of commodities went down and rupee prices in India showed a fall. If we compare sterling prices of October, 1924, with those of August, 1925, we find that whereas the index number of wholesale prices was 170·2 (Board of Trade) and 180·2 (*Economist*) in October, 1924, in August, 1925, and the index number was 157·0 (Board of Trade) and 165·1 (*Economist*). Meanwhile, the index number of wholesale prices in India has fallen from 181 (October, 1924), to 160 (July. 1925). Thus, whereas the rupee

exchange was still strong at about 1*s*. 6*d*. sterling prices had fallen and rupee prices also had fallen. The arguments advanced by the Finance Minister to support the rise in exchange from 1*s*. 4*d*. to 1*s*. 6*d*. should lead the Government of India to issue more currency, so that the internal rupee prices may be steady at about 180. What is urged here is that one cannot pin oneself to steadiness of rupee prices as affording a guidance in the matter of manipulating the exchange rate. The fixing of the value of the rupee must have reference to the operation of deeper and more underlying forces than the fluctuations from time to time in the sterling prices of commodities. From the way in which countries are reverting to the gold standard it looks as if the value of gold will not show any marked variation from its present level one way or the other. In making the rate of rupee exchange depend on internal price stability one cannot but realise that there are not many authoritative bodies in India preparing index numbers on different methods, the conclusions reached by one method serving as a check on that reached by a second method, as is the case in England and United States of America.

23. Another guiding consideration is the state of industry in India. It cannot be too much emphasised that while the need for agricultural improvement should never be lost sight of, there is urgent need for strengthening the forces making for industrial progress in India. Among other causes the uncertainty surrounding the exchange value of the rupee and the recent rise in it have tended to depress Indian industry. Industrial investment has received a deplorable set-back, and Government paper is the one resort of the investor. India at present needs in the economic sphere, more than any other thing, encouragement of industrial enterprise. Anything that damps the tendency to look with favour on industrial investment is not in the immediate or ultimate interests of India. When regard is had to these considerations one cannot help feeling that the policy that led to the rise in exchange from 1*s*. 4*d*. to 1*s*. 6*d*. was not calculated to improve the prospects of industrial enterprise. 1*s*. 4*d*. gold will mean in the circumstances at present increased rupee prices, which will serve to strengthen industrial enterprise. One feels that if exchange had not risen from 1*s*. 4*d*. to 1*s*. 6*d*. the millowners of Bombay might not have been driven to the expedient of cutting down the wages. Nor can it be maintained that the policy of raising the exchange value of the rupee has helped the agriculturists. We have already advanced reasons to show that that claim could not be maintained. The Budget has been balanced with great difficulty in India, and it may be urged that in the circumstances 1*s*. 6*d*. is a better rate in the interest of national finances than the 1*s*. 4*d*. rate. Usually the value of a higher rate is exaggerated. It is true that there is a saving in rupees to the extent of about three crores in home charges. But with a 1*s*. 4*d*. rupee the income tax in rupees is bound to be larger and customs duties as well. Railway charges, which may have to be otherwise reduced, need not be reduced if 1*s*. 4*d*. rate is adopted. Thus there are many compensations in increase in revenues that have to be set against the increased number of rupees necessary to meet home charges. The governing consideration is the general interests of the country, and they seem to point more in favour of 1*s*. 4*d*. than of 1*s*. 6*d*. The importance of 1*s*. 4*d*. having been maintained between 1899 and 1917 is sought to be discounted by the plea that more than any other rate 2*s*. is the historic rate. But conditions in respect of the relative position of silver and gold for currency purposes have altered noticeably since the time when 2*s*. rate for the rupee was normal.

(3) *The Measures During Transition.*

24. When any rate is fixed immediate effect must be given to it. If it is spread over any length of time business will be affected by speculative factors, and health and normality will not be restored to trade and commerce. After all, trade has been adjusting itself as best it could to rise and fall in the exchange value of the rupee. The rate chosen cannot be far removed from the present rate. Practically the choice is between 1*s*. 6*d*. and 1*s*. 4*d*. 1*s*. 4*d*. gold was the rate that ruled about a year back. Trade has been accommodating itself to fluctuations in prices and exchange rate all these years since 1917. If uncertainty is removed, and any rate is fixed which could be maintained, trade will welcome it, and no elaborate arrangements need be made with reference to any transition to a rate that differs from the ruling rate.

(4) *Measures to be Adopted to Maintain the Rate Selected.*

25. The success with which the 1*s*. 4*d*. rate was maintained between 1899 and 1917 furnishes the clue to the measures that have to be adopted hereafter. Only a greater effort should be made in the future to have a stronger backing

of gold in our paper currency reserve, and to see that notes and gold only are put into circulation. Sterling may be purchased in India or Council bills may be sold in England only to the extent of meeting the home charges. Trade must be allowed to find the means of financing itself without the Government selling Council bills to help trade.

26. There may be the danger of the rupee going up in value above the rate selected or going down below it. If it threatens to rise above the rate currency must be added to, and if it is decided to stop the further minting of silver, gold coins must be added to the circulation or notes should be issued. It may be said that the population may ask for silver rupees, in which case there may arise the necessity for minting them. In view, however, of the great expansion of note circulation during the recent war and of the habituation of the people to note currency, with well-directed and prudent propaganda on the part of the Government and in particular the leaders of public opinion, the necessity for the coinage of silver rupees may be dispensed with.

27. There may be the danger of the rupee rate falling. Such an event will occur only in times of adverse trade balance. The Government will have to use the gold standard reserve to meet the home charges, and may have to sell reverse Council bills, and make payment out of the gold standard reserve. The transfer of the gold standard reserve to India, as a result of the sales of Reverse Councils, will involve the sale of Council bills or the purchase of sterling with a view to retransmit the reserve to England. In course of time, as the proportion of the silver rupees in circulation falls, and as gold takes an increasingly important place in the circulation, in times of adverse trade gold may leave the country without any necessity for the Government to sell reverse Councils. Meanwhile, the spread of banking facilities and general enlightenment will help the country to dispense with the use of huge quantities of silver rupee currency.

The Future of the Gold Exchange Standard.

28. The character of the measures to be adopted to maintain the rate fixed depends upon the changes in the system of currency that are going to be introduced. The gold exchange standard system functioned fairly well before the War. During the comparatively prosperous times before the War the disadvantages of that system were not keenly felt. The evils inherent in the system under which token coins, consisting of silver rupees, constituted unlimited legal tender, were not adequately realised. The reason was, it was not felt to be within the region of practical politics that silver would ever rise in price leading to the necessity of the rupee going into the melting point on 1*s.* 4*d.* being maintained. The experience of the Great War has taught us that we should not link the fortunes of the currency system of this country to a definite quantity of silver contained in a rupee. It is true that effective gold standards also broke down as a result of the shock of the War. Elsewhere it was the strain of the War on the energies of the combatants, and the large demands that were made on the resources of the countries that led to the depreciation of currencies and brought about trouble. In India, on the other hand, during the period of expanding trade, when Indian products were sought after by the rest of the world at high prices, our currency system at 1*s.* 4*d.* for the rupee had to break down. This was due to the fact that though we were supposed to be on a gold standard we could not get away from the dominating influence of 165 grains of fine silver in the rupee. If India had been on an effective gold standard the shock of the War would have made gold disappear from circulation in India, and prices would have risen further than they actually did, the currency consisting of paper money only. Whatever the immediate troubles might have been the normal parity would not have been lost sight of, and the public mind would not have been confused, and trade and commerce distracted by the wrangle for different rates for the rupee. The only problem before the country, before normality and health were restored to the currency system would have been to make efforts to restore the gold parity, whatever it was.

29. The gold exchange standard, under which the circulating medium consists of silver token rupees and notes, which, as a matter of right, can be redeemed in silver rupees only, is not satisfactory, especially in the light of the experience of the War and its aftermath. Indian currency has to experience difficulties due not only to the value of gold, but also that of silver. This double uncertainty hampers trade and dislocates calculation and contracts. We must have a system which is subject only to any changes that may come over the value of gold, even as the currency of Canada, the United States of America, England,

and Japan is. The only way to bring about that state of affairs is to limit the minting of rupees in the future, and to work steadily and persistently towards a condition under which gold will be given in exchange for rupees even for internal purposes. Further, the legal tender currency must therefore consist of gold coins and preferably paper money backed by gold. The Government and leaders of public opinion must use their powers of psychological suggestion in favour of an extended use of gold coins or notes. Silver rupees are bound to form, however, an important part of the circulation. Since the bulk of the transactions in India are on a very small scale, and since the wages are very low, the rupee will fill in India a larger place than any corresponding coin will do in more advanced countries. But the sway of the silver rupee could be reduced even as the jute growers of Bengal have got accustomed recently to taking notes instead of rupees. We must look, therefore, to a rise in the standard of life, and to a development of banking facilities, to make the rupee play a steadily decreasing part in the circulation of the country, and become as early as possible a limited legal tender.

(5). *Principles Regarding Note Issue.*

30. In the past the issue of currency notes by the Government of India has been productive of considerable benefit. The population was not accustomed to the use of notes, and in the circumstances confidence was established by the function of note issue being assigned to the Government. Another testimony to the success of Government management of the note issue is furnished by the large expansion in note circulation that marked the period since 1915. That in a period of uncertainty, engendered by the varying fortunes of a world War, the note issue should have expanded in the manner it did is a tribute to the management of the issue, as well as the capacity to learn lessons in currency matters on the part of the people.

31. There is much to be said in favour of the note issue being handed over to the Imperial Bank. The issue and withdrawal of notes will depend on the varying needs for currency. But in India much has been gained by the Government directly managing the note issue, and among a population not much advanced there is something to be said for the Government being directly associated with it. If notes are issued against hundis, endorsed by the Imperial Bank in busy seasons, elasticity of currency could be secured in an adequate measure. Thus, the arguments in favour of transferring note issue to the bank are not overwhelmingly strong, though there is something to be said for India coming into line with the rest of the world by transferring the issue and management of notes from Government officials to the officers of a central bank. Note issue is a source of gain to the State to the extent of the excess of the interest on securities in the paper currency reserve over the cost of management in the paper currency department. The Government, while transferring note issue to the bank, must make arrangements for the bank, making an annual payment based on the amount of securities in the reserve against notes. While active efforts are being made to introduce an effective gold standard there is something to be said in favour of the Government continuing to manage the note issue.

32. We must avoid confusing the public mind by introducing the complexity of a gold note and silver note circulating side by side. Till an effective gold standard begins to function, and till the rupee is treated as a mere token, with a limited legal tender, 50 per cent. of the reserve against notes should consist of gold and silver coins or bullion. Steadily the silver portion of the reserve must be replaced by gold. The fiduciary portion of the reserve should consist in the main of British securities and 10 or 12 crores of Indian securities. Facilities for the encashment of notes must be provided on a large scale. Side by side with the expansion of the note issue steps must be taken to make provision for increased banking facilities.

(6). *The Minting of Gold and Use of Gold as Currency.*

33. The sovereign and half-sovereign should be minted in India. There seems, however, to be a strong sentiment in favour of a gold mohur of the same weight and fineness as the sovereign. It is, however, a disadvantage in view of the place of the sovereign in international commerce and exchange that the sovereign should be given up in favour of the mohur. It is true that gold in circulation is not as great an aid to exchange as gold in reserve. But the public cannot be expected to be educated to use better forms of currency unless we pass through a stage when gold forms an important part of the circulation. The obligation cannot be immediately undertaken to give gold for rupees. But as

soon as possible we must reach such a stage, and measures must begin to be adopted with that end in view. It is a pity that the interest on the gold standard reserve and paper currency reserve investments is being diverted to current revenues. As long as the national finances do not reach equilibrium without interest on investments referred to being annexed to revenue the position is that a real deficit exists, and the country is not paying its way. The country's Budget must be balanced without a resort to those sums. The latter must be used for helping the country to go on an effective gold standard. The interest earned on the gold standard reserve investments and the paper currency reserve investments may be devoted to replace corresponding amount of rupees in circulation by gold. In this manner slowly and steadily the unsatisfactory condition of the composition of the currency at present may be made to give place to a better state of affairs. The Government and the leaders of the public will have to co-operate to achieve an improved currency system. Expansion of banking facilities, expansion of primary education, and establishment of communal concord in the country are favourable conditions for the improvement of the currency system in the direction suggested.

34. It is often said that the tendency to hoard gold on the part of Indians stands in the way of adoption of an effective gold standard. This plea has not much to recommend it. For one thing, the Indian can hoard gold, if he is so minded, only to the extent that he has a surplus of income over expenditure. The fact that an effective gold standard with a gold currency has come into existence will not in any way add to his surplus means. Besides this the gold exchange standard, as it was functioning before the War, did not prevent India from having as much gold as it wanted. As long as there is no embargo on the export of gold from different countries India can always get whatever gold her citizens require. The gold exchange standard, far from preventing the tendency to hoard gold, may even stimulate the hoarding habit on account of the token rupee being unlimited legal tender, and the absence of provision of a legal right to convert rupees into gold. For some years we cannot expect to make the rupee a limited legal tender. The success which attends the efforts of the Government of India to replace rupees in circulation by gold and extension of the habit of using notes or gold currency to meet expanding currency needs will decide the time when the rupee will cease to be unlimited legal tender. When such a condition is reached the notes will be redeemed in gold.

35. Both the Chamberlain Commission and the Babington-Smith Committee gave much of their time to the problem of the composition, size, location, and the employment of the gold standard reserve. In the present condition of Indian finance we shall do well to keep the gold standard reserve in the form of British Treasury bills, and use the interest on the securities to replace silver in circulation by gold. Since our proposal is not to give gold immediately for rupees there is no need for keeping the gold standard reserve in gold. If our financial condition is much better than it is, and if we decide on immediate convertibility of silver rupees into gold, there is a strong case for keeping the gold standard reserve in gold and using it. Though our gold resources in the shape of securities in the gold standard reserve and the gold in the paper currenccy reserve are large, and though a revaluation of gold and sterling securities in the paper currency reserve at the rate at which the rupee is to be stabilised, whether 1*s*. 4*d*. or 1*s*. 6*d*., brings us gain, it cannot be confidently asserted that we may without risk undertake immediately to give gold for rupees as a matter of right. The lesson of the crisis of 1907-08, which followed the diversion of a portion of the profits on rupee coinage to railway capital expenditure should not be lost sight of. We have been enjoying for the last five years favourable monsoons. A monsoon failure on a large scale will subject to a severe test our resources. In these circumstances there is need for caution. As a first step we may content ourselves with stopping the minting of rupees and increasing the circulation of gold coins or paper backed by gold. As the composition of the currency improves considerably in the direction of the circulation of gold coins or paper money backed by gold, there will be a case for scrapping the gold standard reserve. The gold standard reserve is thus to be employed for the time being for meeting the home charges in adverse times, an equal amount of rupees being kept in India, and meeting the payment of reverse Councils. The question of the size of the gold standard reserve, except for the interest on securities, does not arise, since under the scheme here put forward the coinage of silver rupee will have to cease forthwith. Since the reserve is to consist of securities it may be located in London.

APPENDIX 46.

Statement submitted by the Hon. Sir Basil Blackett, K.C.B., K.C.S.I., showing variations in the figures of wages and cost of living of the Bombay cotton mill operatives.

Wages.	May 1914.	May 1921.	August 1923.	June 1925 (assumed).	August 1925 (assumed).
Average monthly wages of all workpeople.	Rs. 16, 6, 3	Rs. 30-10-0 (exclusive bonus) Rs. 32-10-0 (inclusive bonus)	Rs. 30-10-1	Rs. 30-10-1	Rs. 30-10-1
Nominal wages index numbers	100*	187 (without bonus) 199 (with bonus)	187	187	187
Cost of living index	100	167	154	154	152
Real wages	100	180	166	168	168

*July 1914.

APPENDIX 47.

Statement of evidence submitted by Mr. C. J. Hamilton, M.A., Professor of Economics, Patna University.

1. By way of preface I should like to express my opinion regarding the standpoint from which important economic problems in India should be approached by a Commission such as this. It is not unnatural, but yet unfortunate, that economic questions in India should be frequently approached from a political rather than an economic point of view. Decisions are made or judgments formed not upon the real economic merits of the case, but according as the decisions or the judgments appear to support political aspirations or appeal to the sense of national pride. Thus, to give examples, it is not uncommon to find that an Indian audience will not listen to an argument tending to show that Indian poverty is largely due to over-population because it is a political prepossession that Indian poverty is the outcome of British administration and to admit another cause would conflict with that article of political faith. Again, a Gold Exchange Standard has been described by a certain American professor as suitable only for dependent States. It is therefore judged to be incompatible with a proper Indian pride, and economic argument will often prove vain in face of such sentiment.

2. The result of this state of things is that any one being asked for advice upon a practical economic problem has to choose between an answer that he believes to be economically sound and one that will be acceptable to Indian sentiment. There is no doubt, for example, that a very large proportion of Indian opinion is in favour of what is so often called an automatic gold currency, although I feel convinced that the majority of reasons advanced in support of this opinion are fallacious. Is one to recommend a course of action because it is desirable that the Indian people should determine their own economic policy, or should one be true to the results of economic reasoning? I believe that the latter course is essentially preferable.

3. This note is written away from all books and papers of reference and must be completed within a few hours. I must therefore content myself with an attempt to express very briefly my opinions upon certain of the points raised in the memorandum issued by the Commission.

4. Is the time ripe for the stabilisation of the Rupee? This appears to depend on two main considerations:

(*a*) Is the present currency system fraught with disadvantages that should be promptly removed?

(*b*) Will stabilisation itself involve difficulties or risks that will diminish with the lapse of time?

5. Ignoring, for the moment, the larger issue of the form of currency to be adopted and merely considering the question of stabilisation, it is my opinion that there are no immediate evils to be anticipated from leaving things as they are, provided that Government does not itself initiate changes from the prevailing exchange rate. It was said not long ago that India was starved of currency and that Bank Reserves were low while at the same time funds might have been brought from abroad except that the uncertainty of exchange movements involved

too great a risk. Insufficient elasticity has been and is a defect of the Indian Currency system and an uncertain exchange rate emphasises the defect. But when the outcry was loudest against an artificial stringency there were some factors in the situation which made it undesirable to increase bank loan funds too easily. For some time exchange has been reasonably stable and there seems no immediate reason why it should not continue stable under the same influences as now operate.

6. There may be an argument of a political character in favour of early stabilisation and a general settlement of the Currency question. If India is to be put in the course of a few years in a position to determine her own institutions it would be best that a currency system, of a permanent kind, should already be in existence, when the political change is made.

7. A further argument may be advanced in favour of immediate action. Suppose a gold currency should be adopted for India and that in future gold prices should fall considerably. India would then do well to purchase the gold which a gold currency would imply as soon as possible. On the other hand immediate stabilisation will involve risks that are likely to diminish with lapse of time. The future course of gold prices and of sterling prices cannot be foreseen, while it is very possible that present prices may have to be much modified. Any important change in sterling prices would result in immediate reactions in India. The restriction of a currency system in which the exchange rate can be varied without implying a breakdown of the system affords two safety valves instead of one with which to modify the reactions. With the progressive settlement of the currency problems in other countries and when England has become finally adjusted to the Gold standard the course of world prices will be less variable and more obvious. From this standpoint the balance of advantage is on the side of waiting.

8. If the exchange rate is stabilised now it should undoubtedly be at a rate to which market conditions are tending at the moment. I regard all arguments for a return to a rate of 1*s.* 4*d.* whether *per saltum* or *per grosa*, as demonstrably unsound.

9. Should India retain a Gold Exchange Standard, with certain modifications upon the Currency System of pre-war time or should a Gold Standard and Currency be substituted?

Having regard wholly and solely to the economic advantage of India I believe the balance of advantage is largely on the side of the Exchange Standard. I should like to make the following categorical statements:—

(*a*) The advantages of a Gold Exchange Standard are entirely unconnected with the question whether a country is dependent or independent.

(*b*) It is quite indefensible to regard the loss incurred by the sale of Reverse Councils as a direct consequence of the Exchange Standards.

(*c*) The antithesis drawn between a "Managed Currency" and an "Automatic Currency" is unsound. Every currency is managed, although there are degrees of management.

(*d*) India is a debtor country and not a creditor country in the sense involved in this controversy. The question of a normally favourable balance of trade is irrelevant.

(*e*) Under an Exchange Standard India is not prevented from getting the gold she wants.

(*f*) The adoption of a Gold Standard Currency would be costly, and would partly presume acquiescence on the part of the United States in parting with gold for a purpose that would cause a severe depression in her silver industry and a depreciation of her own stocks of silver.

10. Should the control of the note issue be transferred to the Imperial Bank?

I am in favour of such transfer provided that there is a sufficiently centralised control over the policy of the bank and adequate representation of the public interest.

APPENDIX 48.

Statement submitted by Mr. Norman Murray, one of the Managing Governors of the Imperial Bank of India, showing the Imperial Bank's figures of Deposits and Advances divided under the heads "European" and "Indian."

(*See* Question No. 9752 in oral evidence.)

IMPERIAL BANK OF INDIA.

DEPOSITS AND ADVANCES AS AT THE LAST WEEK IN MARCH, 1925.

DEPOSITS.

		Percentage of total.
Indian	Rs. 3522 lacs.	67
European	Rs. 1688 „	33
Total	Rs. 5210 „	

ADVANCES.

Indian	Rs. 4827 lacs.	68
European	Rs. 2318 „	32
Total	Rs. 7145 „	

BANKS.*

	Indian Banks.	*Other Banks.*
Deposits as on 27th March, 1925	Rs. 185 lacs	Rs. 576 lacs.
Advances „ „ „ „	Rs. 306 „	Rs. 223 „

* These figures are included in the totals of "Deposits" and "Advances" in the preceding tables.

Detailed figures leading up to the above Totals.

DEPOSITS.

—	Current Accounts.				Fixed Deposits.			
	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.
Bengal	3,95,79,371	7,52,65,490	3,95,11,940	15,43,56,801	2,54,58,008	9,96,33,636	5,34,964	12,56,26,608
Bombay	86,32,850	4,29,57,222	1,73,93,989	6,89,84,061	51,33,011	5,38,13,028	97,29,609	6,86,75,648
Madras	1,65,73,960	2,30,96,025	87,30,905	4,84,00,890	1,58,18,104	3,88,85,990	3,44,007	5,50,48,101
TOTAL	6,47,86,181	14,13,18,737	6,56,36,834	27,17,41,752	4,64,09,123	19,23,32,654	1,06,08,580	24,93,50,357

—	Current Accounts and Fixed Deposits.			
	European.	Indian.	Banks.	Total.
Bengal	6,50,37,379	17,48,99,126	4,00,46,904	27,99,83,409
Bombay	1,37,65,861	9,67,70,250	2,71,23,598	13,76,59,709
Madras	3,23,92,064	6,19,82,015	90,74,912	10,34,48,991
TOTAL	11,11,95,304	33,36,51,391	7,62,45,414	52,10,92,109

ADVANCES.

—	Bills.				Cash Credits.			
	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.
Bengal	3,38,41,754	3,71,58,088	—	7,09,99,842	7,22,85,188	3,67,66,999	19,15,633	11,09,67,820
Bombay	—	4,28,89,383	—	4,28,89,383	3,79,28,420	9,85,11,832	23,32,919	13,87,73,171
Madras	19,04,264	2,85,38,180	22,99,400	3,27,41,844	1,46,92,364	1,15,75,865	2,70,270	2,65,38,499
TOTAL	3,57,46,018	10,85,85,651	22,99,400	14,66,31,069	12,49,05,972	14,68,54,696	45,18,822	27,62,79,490

—	Overdrafts.				Loans.			
	European.	Indian.	Banks.	Total.	European.	Indian.	Banks.	Total.
Bengal	1,51,34,480	3,48,80,367	36,78,503	5,36,93,350	2,67,640	1,72,91,034	80,16,500	2,55,75,174
Bombay	66,70,635	97,94,760	4,31,502	1,68,96,897	1,59,64,616	8,43,55,922	299,25,724	13,02,46,262
Madras	83,99,317	97,42,259	13,86,674	1,95,28,250	23,92,877	4,05,70,231	27,03,777	4,56,66,885
TOTAL	3,02,04,432	5,44,17,386	54,96,679	9,01,18,497	1,86,25,133	14,22,17,187	406,46,001	20,14,88,321

—	Bills, Cash Credits, Overdrafts and Loans.			
	European.	Indian.	Banks.	Total.
Bengal	12,15,29,062	12,60,96,488	1,36,10,636	26,12,36,186
Bombay	6,05,63,671	23,55,51,897	3,26,90,145	32,88,05,713
Madras	2,73,88,822	9,04,26,535	66,60,121	12,44,75,478
TOTAL	20,94,81,555	45,20,74,920	5,29,60,902	71,45,17,377

APPENDIX 49.

Letter from Mr. J. F. Gennings, Barrister-at-Law, J.P., Acting Director, Labour Office, Bombay, to the Secretary, Royal Commission on Indian Currency and Finance, No. 4945, date the 19th November, 1925.

REFERENCE :—*Agricultural Wages.*

I have the honour to forward herewith 12 tables according to the list attached to this letter.

2. I have been able to get the statistical matter for 1925 tabulated sooner than I expected and the tables sent herewith are complete. The figures for agricultural wages, prior to 1925, were supplied by the Mamlatdars and Mahalakaris of all Talukas in the Bombay Presidency in Taluka Form No. XVIII every month to the Director of Agriculture. In the year 1924, the Government of Bombay in the Revenue Department, on the recommendation of the Labour Office, decided to enlarge the wages section of this form in order to procure additional information in connection with the wages of women and children and wages in kind, and passed a resolution to the effect that all the monthly returns in the enlarged form should be forwarded by the Taluka offices, to the Director, Labour Office, with effect from the 1st January, 1925. Forms for almost all Talukas in all Districts of the Presidency were therefore available in my office for the months of January to October of the current year. The fluctuation in the wages reported monthly is not very marked and most Talukas in the Presidency report almost similar wages for different classes of agricultural labourers for several months at a time. I am therefore of opinion that the inclusion of the data for the months of November and December is not likely to make any perceptible difference in the final averages for the year 1925 and that the averages which I have compiled for the ten months January to October may be regarded as almost final for the year 1925.

3. In the compilation of the figures for Sind, the weighted averages for urban areas have been ascertained from the daily averages of wages in the head-quarter talukas of five districts only instead of seven owing to the fact that I have not received any returns for the Talukas of Hyderabad and Sukkur. The averages for the rural areas have, however, been compiled from figures for all districts. The general tendency in all districts in Sind at present is for wages to increase and the averages for urban areas show, in comparison with 1924, that wages have markedly risen. Owing to the considerable employment available for skilled and unskilled labourers on the Lloyd Barrage it is almost positive that wages in Sukkur and Hyderabad have increased in the same ratio as in the remaining districts of Sind; and I am, therefore, of opinion that the averages compiled for five districts only may be regarded as fairly representative of the figures that would be arrived at if all the districts were taken. I have asked the Collectors of Hyderabad and Sukkur to make immediate arrangements to send me the missing returns and I shall re-calculate the averages for Sind as soon as the required information is received. In case there should be any change in the figures the changes will be notified to you at once.

4. The tables given in paragraphs 19 to 25 of the Labour Office Report on Agricultural Wages are based primarily on the statistics for the year 1922 in comparison with the years 1900 and 1913. But as you required the figures for the years 1923, 1924 and 1925 in the same form I have, instead of giving you separate tables for each year, combined the figures for all three years into one table for each class of labour in urban areas and rural areas. The two separate tables given in the different paragraphs of the Report for Administrative Divisions and Economic Circles have also been combined together and six main tables have been prepared showing the daily average wages in 1900, 1913, 1923, 1924 and 1925, index numbers for 1923, 1924 and 1925 in comparison with wages in 1900 and 1913 and the equivalent weekly wage in sterling.

5. I would recommend that for purposes of comparison greater reliance should be placed on comparing wages for recent years with the pre-war year rather than with the base year 1900. The great famine of 1899-1902 must have had a marked effect on agricultural wages and the tendency of wages in 1900 must have been somewhat on the low side as compared with wages during a normal year. In this connection I would refer you to two articles published on page 503 of the "*Labour Gazette*" for January, 1925, and on page 635 of the "*Labour Gazette*" for February, 1925, dealing with this question. In order to facilitate easy reference I am forwarding copies of these two issues of the "*Labour Gazette.*"

6. With regard to the question of equivalent weekly wages in sterling these equivalents have been arrived at by multiplying the daily average wages by 7 and converting the products into sterling at the rate of exchange of one shilling and fourpence to the rupee. The question whether the daily average wages should be multiplied by six or seven was carefully considered in view of the fact that agricultural labourers in England work for six days in the week only. But as wages in India are reported for working month consisting of 30 days it was thought that it would be better to take the earnings for a full week of 7 days rather than 6 days. Another important question in this connection is that of absenteeism. The Indian agricultural labourer is notorious for knocking off from work for two, three or even four days in a week if he has earned enough during the remainder of a week or of a longer period to keep body and soul together. This question is a very big one and no satisfactory conclusions can be arrived at unless complete statistics are collected in connection with this matter. A note dealing with Labour and Wages in the Bombay Presidency during the year 1924-25 for the General Administration Report has been prepared by this office, which gives rather interesting information on the present position of labour, and which also deals with the question of efficiency and absenteeism in agriculture. I am enclosing a copy of this note for your information.

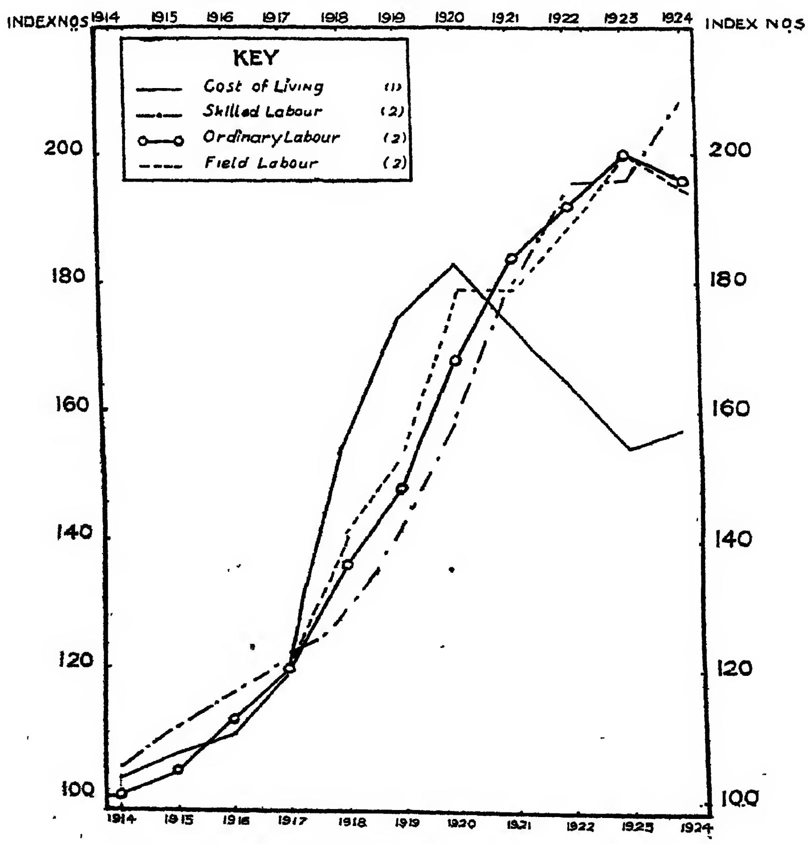
(Enclosure I.)

LABOUR AND WAGES.

(The note referred to at the end of Mr. Gennings' letter above.)

1. Taking the purchasing power of the rupee as 16 annas in the pre-War year, its purchasing power fell from 10 annas and five pies for the year 1923-24 to 10 annas and two pies for the year 1924-25. This was due to the fact that during 1924 the cost of living rose steadily by 11 points between April and August, and remained at the same constant level from August to the end of the year. Expressed in terms of percentage the cost of living was 57 per cent. higher than that of July, 1914, during the year under review as compared with 54 per cent. in the previous year. The effect of the fall in the purchasing power of the rupee appears to have had its corresponding effect on wages throughout the Presidency, because wages of all classes of labour rose by about 5 per cent. during 1924-25. The position of labour in the districts to-day is much better than at any time

WAGES AND COST OF LIVING.



(1) Bombay City (July 1914 = 100).
(2) Urban areas, Bombay Presidency (1913 = 100).

since the beginning of the century. Prices reached their peak in 1920, and, with the exception of a short upward tendency, as shown above, have fallen by over 20 points during the last five years. Wages, however, have shown a constant upward tendency during this period, which suggests that the material condition of labourers in this Presidency, as expressed in terms of real wages, has considerably improved.

2. This view is in harmony with the opinions expressed by many collectors of districts. Reports from the northern division state that, taken altogether, the labouring classes are in a happy condition. Several collectors from the central division are of opinion that the general position of the average labourer is good, and that there is an improvement in his condition. Reports from the southern division also show that the economic condition of labour was satisfactory throughout the year, whilst those from Sind state that the rates of wages are very high in comparison with pre-War rates, and that they do not appear to be much affected by a rise or fall in prices. A most gratifying observation frequently made is to the effect that labour has improved its standard of living in many parts of the Presidency during recent years. On the other hand, there is no corresponding increase in efficiency. In the Kolaba district the Tata Electric Company had to import many labourers from outside owing to the fact that local labour was not sufficiently efficient. In this district high wages have neither conduced to increased efficiency nor to the adoption of better conditions of living; and greater independence has only resulted in slowness and indifference to work. The tendency to spend surplus wages in drink is becoming more marked, and absenteeism is on the increase, for the reason that the average agricultural labourer is generally not inclined for continual work. If he is able to sell his labour at a good price he knocks off from work for two or three days in a week. This is one of the principal reasons given why the supply of labour in several tracts is not sufficient to cope with the demand.

3. With the exception of the general migration of labour to the cities of Bombay, Ahmedabad, and Sholapur, and, in the cotton season, to the two Khandesh districts, there was not much inter-district migration during the year in the Presidency proper. Contrary to the usual custom, very few Cutchi, Thari, and Marwari labourers migrated to Sind, the reason being that these people were able to eke out a satisfactory existence in their own territories. But there was considerable inter-district migration in Sind itself on account of the ready employment available on the various works in connection with the Lloyd Barrage.

4. *Agricultural Labour.*—In the northern division agricultural labour continued to be scarce and costly. In the Ahmedabad district there is a crying need for a more settled agricultural population on account of an increase in the areas for cultivation, although vast tracts of waste still remain to be converted into arable land. In Broach, with the exception of the Bahra tract of the Vagra Taluka, where the season was not entirely favourable, there was the same usual scarcity for field labourers. In the harvesting season cultivators had to pay as much as a rupee a day, with food per head for the labour which they required. However, much of the agricultural work in this district is done by permanent servants, who are paid in cash, along with food and clothing. Their status is in many cases no better than that of bondsmen, but their position is fairly secure. In the Thana district cultivators are endeavouring to maintain a hold on their employees by making advances of money for marriages, but in many cases the labourers leave their masters as soon as they are married, because they know that no action can be taken against them under the Workmen's Breach of Contract Act or any other law except through the long and tedious procedure of the Civil Courts. The effect of the prevalence of high wages is resulting in a deterioration of agriculture because the burden of scarce and dear labour falls almost entirely on the tenant farmer class. The bigger landlords are not affected, as they do not usually undertake cultivation or contribute anything to the working expenses or to the improvement of their land. They simply lease their lands out at rents varying from three to six times the assessment, and the tenants have to bear all expenses of every kind.

5. In the rural areas of the central division the average wages of agricultural labourers rose from six annas and three pies per head per day to seven annas and six pies or by 20 per cent. This was due to the generally favourable character of the season in all districts with the exception of West Kandesh, where no unusual demand for agricultural labour was in evidence. The agricultural labour outlook is, however, causing great anxiety to the richer cultivators

(Enclosure II.)

AGRICULTURAL WAGES IN THE BOMBAY PRESIDENCY.

LIST OF TABLES.

TABLE 1.—Wages of Field Labour—Urban areas—By Divisions and Economic Circles.

TABLE 2.—Wages of Field Labour—Rural areas—By Divisions and Economic Circles.

TABLE 3.—Wages of Ordinary Labour—Urban areas—By Divisions and Economic Circles.

TABLE 4.—Wages of Ordinary Labour—Rural areas—By Divisions and Economic Circles.

TABLE 5.—Wages of Skilled Labour—Urban areas—By Divisions and Economic Circles.

TABLE 6.—Wages of Skilled Labour—Rural areas—By Divisions and Economic Circles.

TABLE 7.—Summary of changes in Field, Ordinary and Skilled Labour—Urban areas—By Divisions and Economic Circles.

TABLE 8.—Summary of changes in Field, Ordinary and Skilled Labour—Rural areas—By Divisions and Economic Circles.

TABLE 9.—Cost of Living (Presidency) since 1900 and Pre-war (July 1914)—(1) March 1900=100.

TABLE 10.—Cost of Living (Presidency) since 1900 and Pre-war (July 1914)—(2) July 1914 (Pre-war month)=100.

TABLE 11.—Real wages for Presidency including Sind—Urban areas.

TABLE 12.—Real wages for Presidency including Sind—Rural areas.

TABLE No. 1.

Wages of Field Labourers—Urban Areas. By Divisions and Economic Circles.

Territorial Divisions.	Average Daily Wages per head in 1900.	1913.	1923.	1924.	1925.*	Increase per cent. In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	Equivalent Weekly Wage in 1923.	1924.	1925.*
	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.								s. d.	s. d.	s. d.
Northern Division	0 2 9	0 4 9	0 11 0	0 9 9	0 11 9	73	300	*132*	255	*105*	327	*147*	6 5	5 8	6 10
Central Division	0 2 9	0 5 0	0 9 0	0 9 0	0 10 3	82	227	*80*	227	*80*	273	*105*	5 3	5 3	6 0
Southern Division	0 3 0	0 4 0	0 8 6	0 8 9	0 8 9	33	183	*113*	192	*119*	192	*119*	5 0	5 1	5 1
Sind	0 5 6	0 7 9	0 12 6	0 14 3	1 1 9	41	127	*61*	159	*84*	223	*129*	7 4	8 4	10 4
Gujarat Circle	0 2 6	0 4 6	0 10 9	0 9 3	0 10 9	80	330	*139*	270	*106*	330	*139*	6 3	5 5	6 3
Deccan Circle	0 2 9	0 4 6	0 8 3	0 8 6	0 9 6	64	200	*83*	209	*89*	245	*111*	4 10	5 0	5 7
Konkan Circle	0 3 3	0 5 3	0 11 3	0 11 3	0 12 6	62	246	*115*	246	*114*	285	*138*	6 7	6 7	7 4
Presidency (excluding Sind)...	0 2 9	0 4 9	0 9 6	0 9 3	0 10 3	73	245	*100*	236	*95*	273	*116*	5 7	5 5	6 0
Presidency (including Sind)...	0 3 0	0 4 9	0 9 6	0 9 3	0 10 6	58	217	*100*	208	*95*	250	*121*	5 7	5 5	6 2

TABLE No. 2.

Wages of Field Labourers—Rural Areas. By Divisions and Economic Circles.

Territorial Divisions.	1900.	1913.	1923.	1924.	1925.*	In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	1923.	1924.	1925.*
Northern Division	0 2 3	0 3 9	0 8 3	0 8 0	0 9 9	67	267	*120*	256	*113*	333	*160*	4 10	4 8	5 8
Central Division	0 2 3	0 4 3	0 6 3	0 7 6	0 7 9	89	178	*47*	233	*76*	244	*82*	3 8	4 5	4 6
Southern Division	0 2 3	0 4 0	0 6 3	0 6 0	0 7 6	78	178	*56*	167	*50*	233	*88*	3 8	3 6	4 5
Sind	0 5 6	0 8 0	0 14 9	0 15 9	1 2 9	45	168	*84*	186	*97*	241	*134*	8 7	9 2	10 11
Gujarat Circle	0 2 3	0 3 9	0 8 3	0 8 0	0 10 3	67	267	*120*	256	*113*	356	*173*	4 10	4 8	6 0
Deccan Circle	0 2 3	0 4 0	0 6 0	0 6 6	0 7 3	78	167	*50*	189	*.63*	222	*81*	3 6	3 10	4 3
Konkan Circle	0 2 9	0 4 6	0 9 0	0 9 3	0 9 3	64	227	*100*	236	*106*	236	*106*	5 3	5 5	5 5
Presidency (excluding Sind)...	0 2 3	0 4 0	0 7 0	0 7 3	0 8 3	78	211	*75*	222	*81*	277	*106*	4 1	4 3	4 10
Presidency (including Sind)...	0 2 6	0 4 3	0 7 3	0 7 6	0 8 9	70	190	*71*	200	*76*	250	*106*	4 3	4 5	5 1

TABLE No. 3.

Wages of Ordinary Labourers—Urban Areas. By Divisions and Economic Circles.

Territorial Divisions.	1900.	1913.	1923.	1924.	1925.*	In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	1923.	1924.	1925.*
Northern Division	0 3 6	0 5 3	0 14 0	0 14 3	0 14 6	50	300	*167*	307	*171*	314	*176*	8 2	8 4	8 6
Central Division	0 3 0	0 5 9	0 10 3	0 9 9	0 10 3	92	242	*78*	225	*70*	242	*78*	6 0	5 8	6 0
Southern Division	0 3 9	0 5 9	0 10 3	0 10 6	0 11 6	53	173	*78*	180	*83*	207	*100*	6 0	6 2	6 9
Sind	0 6 6	0 8 0	0 15 9	0 15 6	1 1 6	23	142	*97*	138	*94*	169	*119*	9 2	9 1	10 3
Gujarat Circle	0 3 3	0 5 3	0 13 3	0 13 9	0 14 0	62	308	*152*	323	*162*	331	*167*	7 9	8 0	8 2
Deccan Circle	0 3 3	0 5 9	0 10 0	0 9 9	0 10 6	77	208	*74*	200	*70*	223	*83*	5 10	5 8	6 2
Konkan Circle	0 4 0	0 6 3	0 13 0	0 13 0	0 12 9	56	225	*108*	225	*108*	219	*104*	7 7	7 7	7 5
Presidency (excluding Sind)...	0 3 6	0 5 9	0 11 3	0 11 3	0 11 9	64	221	*95*	221	*96*	236	*104*	6 7	6 7	6 10
Presidency (including Sind)...	0 4 3	0 6 3	0 12 6	0 12 3	0 12 9	47	194	*100*	188	*96*	200	*104*	7 4	7 2	7 5

* The figures for 1925 are based on averages for the ten months from January to October.

TABLE No. 4.

Wages of Ordinary Labourers—Rural Areas. By Divisions and Economic Circles.

Territorial Divisions.	Average Daily Wages per head in 1900.	1913.	1923.	1924.	1925.*	Increase per cent. In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	Equivalent Weekly Wage in 1923.	1924.	1925.*
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.								s. d.	s. d.	s. d.
Northern Division	0 2 6	0 4 3	0 11 3	0 11 0	0 10 0	70	350	*165*	340	*159*	300	*135*	6 7	6 5	5 10
Central Division	0 2 6	0 4 6	0 6 6	0 8 0	0 8 3	80	160	*44*	220	*78*	230	*83*	3 10	4 8	4 10
Southern Division	0 3 0	0 4 9	0 7 9	0 7 6	0 8 3	58	158	*63*	150	*58*	175	*74*	4 6	4 5	4 10
Sind	0 4 3	0 7 3	0 11 9	0 12 0	0 13 0	71	176	*62*	182	*66*	206	*79*	6 10	7 0	7 7
Gujarat Circle	0 2 3	0 4 0	0 11 0	0 11 0	0 10 0	78	389	*175*	389	*175*	344	*150*	6 5	6 5	5 10
Deccan Circle	0 2 6	0 4 6	0 6 3	0 7 6	0 8 0	80	150	*39*	200	*67*	220	*78*	3 8	4 5	4 8
Konkan Circle	0 3 3	0 5 3	0 10 6	0 9 9	0 9 9	62	223	*100*	200	*86*	200	*86*	6 2	5 8	5 8
Presidency (excluding Sind)...	0 2 6	0 4 6	0 8 0	0 8 9	0 8 9	80	220	*78*	250	*94*	250	*94*	4 8	5 1	5 1
Presidency (including Sind)...	0 3 0	0 5 3	0 9 0	0 9 6	0 9 9	75	200	*71*	217	*81*	225	*86*	5 3	5 7	5 8

TABLE No. 5.

Wages of Skilled Labourers—Urban Areas. By Divisions and Economic Circles.

Territorial Divisions.	1900.	1913.	1923.	1924.	1925.*	In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	1923.	1924.	1925.*
Northern Division	0 10 6	0 13 9	2 3 6	2 2 6	2 2 0	31	238	*158*	229	*151*	224	*147*	20 9	20 2	19 10
Central Division	0 9 3	0 13 0	1 7 0	1 9 6	1 10 0	41	149	*77*	176	*96*	181	*100*	13 5	14 11	15 2
Southern Division	0 8 9	0 10 9	1 2 0	1 3 6	1 9 6	23	106	*67*	123	*81*	191	*137*	10 6	11 5	14 11
Sind	1 0 9	1 4 6	2 3 9	2 8 6	2 10 6	22	113	*74*	142	*98*	154	*107*	20 10	23 8	24 10
Gujarat Circle	0 10 3	0 13 6	2 2 3	2 1 3	2 0 9	32	234	*154*	224	*146*	220	*143*	20 0	19 5	19 1
Deccan Circle	0 9 0	0 11 9	1 4 9	1 6 6	1 9 6	31	131	*77*	150	*91*	183	*117*	12 1	13 2	14 11
Konkan Circle	0 10 3	0 13 9	1 12 0	1 14 6	2 0 9	34	173	*104*	198	*122*	220	*138*	16 4	17 10	19 1
Presidency (excluding Sind)...	0 9 6	0 12 6	1 9 3	1 10 6	1 12 3	32	166	*102*	179	*112*	197	*126*	14 9	15 6	16 6
Presidency (including Sind) ..	0 10 9	0 13 9	1 11 0	1 12 9	1 13 9	28	151	*96*	167	*109*	177	*116*	15 9	16 9	17 4

TABLE No. 6.

Wages of Skilled Labourers—Rural Areas. By Divisions and Economic Circles.

Territorial Divisions.	1900.	1913.	1923.	1924.	1925.*	In 1913 over 1900.	In 1923 over 1900.	In 1923 over 1913.	In 1924 over 1900.	In 1924 over 1913.	In 1925* over 1900.	In 1925* over 1913.	1923.	1924.	1925.*
Northern Division	0 8 0	0 11 9	2 0 3	2 0 3	2 0 3	47	303	*174*	303	*174*	303	*174*	18 10	18 10	18 10
Central Division	0 7 9	0 10 6	0 15 3	1 0 9	1 3 9	35	97	*45*	116	*60*	155	*88*	8 11	9 9	11 6
Southern Division	0 6 6	0 9 9	1 0 0	0 15 6	1 1 9	50	146	*64*	138	*59*	173	*82*	9 4	9 1	10 4
Sind	1 0 0	1 2 0	1 11 0	1 13 9	2 2 3	13	69	*50*	86	*65*	114	*90*	15 9	17 4	20 0
Gujarat Circle	0 7 3	0 11 9	2 0 3	2 0 3	1 15 3	62	345	*174*	345	*174*	331	*166*	18 10	18 10	18 3
Deccan Circle	0 7 0	0 10 0	0 14 9	0 15 3	1 2 0	43	111	*48*	118	*53*	157	*80*	8 7	8 11	10 6
Konkan Circle	0 10 9	0 11 3	1 9 9	1 9 6	1 13 6	5	140	*129*	137	*127*	174	*162*	15 0	14 11	17 3
Presidency (excluding Sind)...	0 7 6	0 10 9	1 5 0	1 5 3	1 7 0	43	180	*95*	183	*98*	207	*114*	12 3	12 5	13 5
Presidency (including Sind)...	0 9 0	0 11 9	1 6 0	1 6 6	1 8 6	31	144	*87*	150	*91*	172	*109*	12 10	13 2	14 4

* The figures for 1925 are based on averages for the ten months from January to October.

TABLE No. 7.

Summary of Changes in Field, Ordinary and Skilled Labour—Urban Areas. By Divisions and Economic Circles.

Territorial Divisions.	Percentage Increases in Daily Average Wages in 1923 over						Percentage Increases in Daily Average Wages in 1924 over						Percentage Increases in Daily Average Wages in 1925 over					
	1900 (base year).			1913 (pre-war year).			1900 (base year).			1913 (pre-war year).			1900 (base year).			1913 (pre-war year).		
	Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.
Northern Division... ...	300	300	238	132	167	158	255	307	229	105	171	151	327	314	224	147	176	147
Central Division	227	242	149	80	78	77	227	225	176	80	70	96	273	242	181	105	78	100
Southern Division... ...	183	173	106	113	78	67	192	180	123	119	83	81	192	207	191	119	100	137
Sind	127	142	113	61	97	74	159	138	142	84	94	98	223	169	154	129	119	107
Gujarat Circle	330	308	234	139	152	154	270	323	224	106	162	146	330	331	220	139	167	143
Deccan Circle	200	208	131	83	74	77	209	200	150	89	70	91	245	223	183	111	83	117
Konkan Circle	246	225	173	115	108	104	246	225	198	114	108	122	285	219	220	138	104	138
Presidency (without Sind)	245	221	166	100	95	102	236	221	179	95	96	112	273	236	197	116	104	126
Presidency (including Sind)	217	194	151	100	100	96	208	188	167	95	96	109	250	200	177	121	104	116

TABLE No. 8.

Summary of Changes in Field, Ordinary and Skilled Labour—Rural Areas. By Divisions and Economic Circles.

Northern Division	267	350	303	120	165	174	256	340	303	113	159	174	333	300	303	160	135	174
Central Division	178	160	97	47	44	45	233	220	116	76	78	60	244	230	155	82	83	88
Southern Division	178	158	146	56	63	64	167	150	138	50	58	59	233	175	173	88	74	82
Sind	168	176	69	84	62	50	186	182	86	97	66	65	241	206	114	134	79	90
Gujarat Circle	267	389	345	120	175	174	256	389	345	113	175	174	356	344	331	173	150	166
Deccan Circle	167	150	111	50	39	48	189	200	118	63	67	53	222	220	157	81	78	80
Konkan Circle	227	223	140	100	100	129	236	200	137	106	86	127	236	200	174	106	86	162
Presidency (excluding Sind)	211	220	180	75	78	95	222	250	183	81	94	98	267	250	207	106	94	114
Presidency (including Sind)	190	200	144	71	71	87	200	217	150	76	81	91	250	225	172	106	86	109

TABLE No. 9.

Cost of living (Presidency) since 1900 and pre-war (July 1914).

1.—March 1900=100.

Articles.	Number.	March 1900.	July 1914.	March 1923.	March 1924.	March 1925.
Foodgrains	6	100	114	155	155	166
Other articles of food	11	100	120	193	199	198
Total food articles	17	100	116	167	169	177
Fuel and lighting (kerosene) ...	1	100	100	171	166	172
Clothing	3	100	135	302	311	281
General average	21	100	117	173	176	181

TABLE No. 10.

Cost of living (Presidency) since 1900 and pre-war (July 1914).

2.—July 1914 (pre-war month)=100.

Articles.	Number.	July 1914.	March 1923.	March 1924.	March 1925.
Foodgrains	6	100	136	136	145
Other articles of food	11	100	161	166	165
Total food articles	17	100	144	146	152
Fuel and lighting (kerosene)	1	100	172	167	172
Clothing	3	100	224	230	208
General average	21	100	149	151	155

TABLE No. 11.

Real wages for Presidency including Sind—Urban areas.

Years.	Cost of Living Index Nos.	Index Numbers of Nominal Wages.			Index Numbers of Real Wages.		
		Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.
	(1900=100)						
1914	117	167	147	133	143	126	114
1921	195	283	271	230	145	139	118
1922	200	300	282	249	150	141	125
1923	173	317	294	251	183	170	145
1924	176	308	288	267	175	164	152
1925	181	350	300	277	193	166	153
	(1914=100)						
1921	167	170	184	174	102	110	104
1922	172	180	192	188	105	112	109
1923	149	190	200	189	128	134	127
1924	151	185	196	202	123	130	134
1925	155	210	204	209	135	132	135

TABLE No. 12.

Real wages for Presidency including Sind—Rural areas.

Years.	Cost of Living Index Nos.	Index Numbers of Nominal Wages.			Index Numbers of Real Wages.		
		Field Labour.	Ordinary Labour.	Skilled Labour.	Field Labour.	Ordinary Labour.	Skilled Labour.
	(1900=100)						
1914	117	180	183	133	154	156	114
1921	195	270	258	217	138	132	111
1922	200	290	283	233	145	142	117
1923	173	290	300	244	168	173	141
1924	176	300	317	250	170	180	142
1925	181	350	325	272	193	180	150
	(1914=100)						
1921	167	150	141	163	90	84	98
1922	172*	161	155	175	94	90*	102
1923	149	161	164	183	108	110	123
1924	151	167	173	188	111	115	125
1925	155	194	177	204	125	114	132

*Corrected.

APPENDIX 50.

Letter from the Secretary, Chamber of Commerce, Madras, to the Joint Secretaries to the Royal Commission on Indian Currency and Finance, dated 1st December, 1925.

I am directed to submit the views of the Committee of this Chamber on the preliminary questionnaire.

Q. 1.—Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

What is the comparative importance of stability in internal prices and in foreign exchanges?

What are the effects of a rising and falling rupee and of a stability of high or low rupee on trade and industry including agriculture and on national finance?

A. 1.—In view of the return of the United Kingdom and some of the principal European Nations to a Gold Standard this Chamber is of opinion that the time is ripe for an attempt to be made to stabilise the rupee.

Stability in internal prices is of the utmost importance, but my Committee cannot measure the comparative value of stability in internal prices as against stability in foreign exchanges. The one would appear to be largely dependent on the other as a stable exchange would tend, in a large measure, to control internal price fluctuations.

Q. 2.—In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

A. 2.—In the opinion of my Committee the standard to be adopted should be the gold exchange standard which was in force before the war. My Committee are not prepared to name a rate at which the rupee should be stabilised as it considers that the rate most suitable to the needs of the country can only be decided upon when all evidence bearing on the question has been submitted and considered by the Members of the Commission.

Any decision in favour of stabilisation should take effect as early as possible.

Q. 3.—If the rate selected differs materially from the present rate how should transition be achieved?

A. 3.—My Committee consider that the transition will achieve itself without any serious disorganisation if the rate selected is one that

Government can fully maintain. The ease or difficulty in achieving the transition will depend, in a great measure, on the degree of confidence which the public held in Government's power to maintain the adopted rate.

Q. 4.—What measures should be adopted to maintain the rupee at the rate selected?

Should the Gold Exchange Standard system in force before the war be continued and with what modifications, if any?

What should be the composition, size, location and employment of a Gold Standard Reserve?

A. 4.—My Committee presume that the rate to be fixed will depend on the measures Government have at their disposal to maintain that rate. It is further assumed that the Gold Standard Reserve will be maintained and used to prevent heavy fluctuations in exchange and the composition and size of the Reserve will again depend, in a large measure, on the rate selected.

My Committee are of opinion that the Gold Standard Reserve should be in easily realisable short dated securities and Gold maintained in London.

Q. 5.—Who should be charged with the control of the note issue and on what principles should control or management be transferred to the Imperial Bank of India, and if so, what should be the general terms of the transfer?

What provisions should be made as to the backing of the note issue?

What should be the facilities for the encashment of notes?

What should be the policy as to the issue of notes of small values?

A. 5.—My Committee are not prepared to express an opinion on this item of the questionnaire.

Q. 6.—What should be the policy as to the minting of gold in India and the use of gold as currency?

Should the obligation be undertaken to give gold for rupees?

A. 6.—My Committee would not advocate any departure at present from the pre-war arrangement in regard to the exchange of gold for rupees and are not in favour of the minting of gold in India.

Q. 7.—By what method should the remittance operations of the Government of India be conducted?

Should they be managed by the Imperial Bank?

A. 7.—My Committee do not propose to express an opinion on this item of the questionnaire but presume that the remittance operations of the Government of India will continue to be controlled, as in the past, by the Finance Member to Government.

Q. 8.—Are any, and, if so, what measures desirable to secure greater elasticity in meeting seasonal demands for currency?

Should any, and, if so, what conditions be prescribed with regard to the issue of currency against hundis?

A. 8.—In the opinion of my Committee the present facilities appear to be sufficient but consideration might be given to the widening of the field of securities against which the issue of currency can be made to meet seasonal demands.

Q. 9.—Should any change be made in existing methods for the purchase of silver?

A. 9.—My Committee see no reason to alter the existing methods for the purchase of silver.

I am further directed to state that the Madras Chamber do not propose to tender oral evidence before the Commission through a representative witness and so far as can be ascertained no Member of the Chamber desired to appear before the Commission in his individual capacity.

Briefly stated the views of the Chamber are that stability in exchange is of vital importance to all agricultural, industrial and trading interests throughout the country and my Committee consider that no violence will be done to any particular interest whether the rate is fixed at 1*s*. 4*d*., 1*s*. 6*d*., or at any point between these two figures provided Government have it in their power to maintain the Exchange value of the rupee at the level decided upon.

APPENDIX 51.

Letter from the Secretary, Burma Indian Chamber of Commerce, Rangoon, to the Joint Secretaries, Royal Commission on Indian Currency and Finance, No. G. L. 176-25, dated the 23rd December, 1925.

I am directed by the Committee of this Chamber to submit hereby their views on the Indian Currency and Exchange policy for the consideration of the Royal Commission.

2. The terms of reference to the Commission are:—" To examine and report on the Indian Exchange and Currency system and practice; to consider whether any modifications are desirable in the interests of India; and to make recommendations."

3. It is gratifying that the terms of reference are kept as wide as could be desired and are not needlessly confined to an examination of a particular system just as those to the Babington Smith Committee were confined only to an examination of the Gold Exchange Standard. The Commission have thus been left full discretion to recommend any measures which they consider most desirable and suitable *in the interests of India*. My Committee attach special importance and significance to the words " *in the interests of India* " included in the terms of reference because they believe that rightly or wrongly there is an impression in the Indian public mind that interests other than Indian have been given undue importance in determining and pursuing the currency and Exchange policy in this country up till now.

4. My Committee will now proceed to deal with the various questions contained in your memorandum :—

Question 1.—(*a*) Is the time ripe for the solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

(*b*) What is the comparative importance of stability in internal prices and in foreign exchanges?

(c) What are the effects of a rising and a falling rupee and of a stability of a high or low rupee on trade and industry including agriculture and on national finance?

Answer :—(*a*) My Committee are of opinion that time is not only ripe for an enquiry into the Indian Currency and Exchange policy with a view to revise the ill-conceived legislation of 1920, which altered the legal ratio of the rupee from 1*s*. 4*d*. to 2*s*. in accordance with the recommendation of the majority of the Babington Smith Committee but that such an enquiry has been delayed too long. It will be remembered that the most significant factor which influenced the findings of the Babington Smith Committee was the unprecedentedly high price of silver, as a result of which the Committee presumed that the price of silver was likely to remain very high for a long time and that it would not in any case fall below $1 per ounce for many years to come. In order, therefore, to give the Rupee a sufficiently high exchange value which would place the melting point of the Rupee higher than that of the U.S.A. silver dollar in relation to the price of silver, the Committee recommended the 2*s*. ratio, which they have tried in vain to justify in paragraph 43 of their Report. When, however, the price of silver began to fall contrary to the predictions of the majority of the Babington Smith Committee, the rupee exchange ought to have been put down *pari passu* with the same promptitude with which the rate was put up when the price of silver began to rise in September, 1917. But this the authorities would not do in spite of strong representations and protests of the Indian commercial community and the in-operative yet injurious 2*s*. ratio has been allowed to continue on the Statute Book with the result that the Indian Currency system has been deprived of the automatic working which was its characteristic feature before the war. An enquiry into the Indian Currency and Exchange System was put off up till now on various pretexts, chief among which were the unsettled political conditions in Europe, the state of prices throughout the world, the uncertainty as to the price in terms of gold, and the uncertainty as to the relation between the price of one commodity and another. Under these conditions the authorities considered the stabilisation of exchange premature although Indian public opinion thought otherwise. But with the return of England, the Dominions and a number of European countries to the gold standard my Committee are of opinion that time is now more than ripe to put the Indian Currency and Exchange System on a sound and stable basis.

(*b*) While my Committee are alive to the importance of stability in internal prices as well as in foreign exchanges, they are firmly of opinion that the maintenance of the former by Currency manipulations is open to serious objections.

The fact that the authorities here have so far attached greater importance to the stability of internal prices than to the stability of exchange had brought about grave dislocation of trade. The maintenance of a stable price level in the country irrespective of fluctuations in world prices as a national policy is to be greatly deprecated. Because such a policy naturally results in exchange being moved up and down every few years just to maintain the country's Index number constant. The goal should be to see that the prices of various commodities in the country are not maintained at a higher level than is justified by the prices of similar commodities in other countries. My Committee therefore believe that prices in India should generally follow the movement of world prices and in their opinion the best means to secure this is to place Indian Currency on a genuine Gold Standard.

(c) The question being merely an academic one, my Committee do not propose to discuss such effects. They may, however, be permitted to point out that whatever may be the implication of this question, they cannot agree that the consideration of such effects is under any circumstances a justification for tampering with the standard of value of a country. They agree that the cost of Government remittances would be lightened by means of a high exchange but such an incidental and subsidiary advantage should be strictly subordinated to the more vital interests concerned. The balancing of budgets by such devices is economically unsound and my Committee would prefer direct taxation to such an indirect and imperceptible burden on the taxpayer.

Question 2.—(*a*) In relation to what standard and at what rate should the rupee be stabilised, if at all?

(*b*) When should any decision as to stabilisation take effect?

Answer.—(*a*) In dealing with this question, it is necessary to refer briefly to the system of currency in force before the war in this country. Before the war the currency system was based on what the Chamberlain Commission described as the Gold Exchange Standard. According to them, it was, in fact, a gold standard supported by gold in reserve with internal circulation mainly of rupees and notes. In their opinion it was a part of the system that the rupee should not be allowed to go over 1*s*. 4*d*. and that it was not possible for the Government of India to manipulate the currency for their own ends. The experience has, however, proved that, while the Gold Exchange Standard System functioned satisfactorily before the war, it utterly broke down during and after the war and also that it was capable of being manipulated by the authorities in charge of the system. *My Committee, therefore, advocate the establishment of a Gold Standard with a gold currency* which has been the goal of this country since 1893, when the Silver Standard was given up and Indian mints were closed to a free coinage of silver. Even the Fowler Committee of 1898 looked forward to "the effective establishment in India of a Gold Standard and Currency based on the principles of free inflow and outflow of Gold." Moreover, the balance of trade being normally in favour of India, the introduction and maintenance of a gold standard, my Committee consider easy of achievement, and beg to suggest the following measures to achieve this:—

(1) The basis of the currency system of the country should be declared to to be the Gold Standard.

(2) The unit should be defined as the Gold rupee containing 7·53344 grains of gold. The relation of the rupee to gold will then be Rs. 15 to the British sovereign.

(3) Sovereign or the Gold Mohur of 1918 which was of the same weight, fineness and dimensions as the former should be the standard gold coin and should be minted in India.

(4) The coinage of fresh rupees should be entirely discontinued, but the rupees in circulation at present should be allowed to continue as full legal tender pending consideration of the question of demonetisation of the rupee at a future date.

(5) For the present, currency notes should be convertible either in gold or silver at the option of Government.

(*b*) Answer to this question will be found in my Committee's reply to Question 3.

Question 3.—If the rate selected differs materially from the present rate, how should transition be achieved?

Answer.—

5. My Committee have advocated the establishment of the Gold Standard under which the rupee is proposed to be the unit and to contain 7·53344 grains of

gold, *i.e.*, Rs. 15 to a Sovereign, or 1*s.* 4*d.* to a rupee. As this rate differs materially from the present rate my Committee are of opinion that any decision should not take effect from any given date. They suggest that Government should declare its policy to be a return to Rs. 15 to a Sovereign and they believe that the effect of such a declaration will be an immediate fall in exchange. Government should announce, with every such fall, that they would give rupees in exchange for gold at the then prevailing market rate. When the market rate reaches approximately 1*s.* 4*d.*, *i.e.*, Rs. 15 to a Sovereign, the latter should be made Statutory rate.

Q. 4.—(*a*) What measures should be adopted to maintain the rupee at the rate selected?

(*b*) Should the Gold Exchange Standard System in force before the war be continued and with what modifications, if any?

(*c*) What should be the composition, size, location and employment of a Gold Standard Reserve?

A. —(*a*) As for the measures, my Committee beg to suggest that (1) local currency should be made freely available against tender of gold at the rate of Rs. 15 to a Sovereign or Mohur. (2) Drawings by the Secretary of State by sale of Council Bills should be abandoned. (3) Home remittances of Government should be made exclusively by purchases in India. (4) Government should definitely abandon the policy of buying in excess of their budgetted requirements. (5) The sale of Reverse Councils to prevent exchange from falling below the gold export point must be given up and (6) the authorities should undertake to give gold for purposes of export at the mint par in such minimum quantities as they may determine.

(*b*).

The Gold Exchange Standard should be definitely given up in favour of a genuine Gold Standard.

(*c*).

6. Gold Standard Reserve should be composed entirely of gold coin and gold bullion or at least a major portion thereof and the sterling securities, which are now a part of the Reserve should be liquidated as early as possible and converted into gold.

7. My Committee further suggest that the gold portion of the Paper Currency Reserve should consist as at present partly of gold and partly of sterling securities, the latter being held in London to facilitate transfer of Government account in times when the exchange position is weak.

8. The Gold Standard Reserve and the gold portion of the Paper Currency Reserve should be amalgamated so as to form the gold backing to the note issue. The Reserve thus constituted being primarily a currency reserve it should be located entirely in India excepting the sterling securities of the Paper Currency Reserve and the small amount of such securities which may form a part of the Gold Standard Reserve.

9. When the Gold Standard and the Paper Currency Reserves are amalgamated and the gold portion of the Paper Currency Reserve is revalued on a basis of Rs. 15 to the Sovereign, the created securities in the Paper Currency Reserve will be wiped out and there will be a surplus in the Reserve in excess of the note issue. This surplus should be utilised for the redemption of silver rupees that may be tendered for conversion into gold.

Q. 5.—(*a*) Who should be charged with the control of the note issue and on what principles? Should control or management be transferred to the Imperial Bank of India, and if so, what should be the general terms of the transfer?

(*b*) What provisions should be made as to the backing of the note issue?

(*c*) What should be the facilities for the encashment of notes?

(*d*) What should be the policy as to the issue of notes of small values?

A.—(*a*) My Committee are of opinion that the time is now ripe for handing over the management of the note issue to the Imperial Bank of India, which now enjoys the position of a Central Bank, under proper statutory restrictions and safeguards.

(*b*) A reply to this will be found under my Committee's reply to Question 4 (*c*).

(*c*) My Committee have already stated in their reply to Question 2 (*a*) that for the present notes should be convertible either in gold or silver at the option of Government. Facilities for the encashment of notes should be as adequate and extensive as possible.

(*d*) As far as my Committee are aware, there seems to be a general impression that the discontinuance of one rupee notes was a mistake. These notes had become very popular with the masses but on account of the high cost of printing the same, they were discontinued as a result of the recommendation of the Retrenchment Committee. My Committee suggest that one rupee notes should be re-introduced as they feel that it would not be difficult for the authorities to reduce the cost of printing the same. In case of their re-introduction, my Committee suggest that the requirements of the masses should be more closely studied and should be the principal factor in determining the new form such notes should take.

Q. 6.—What should be the policy as to the minting of gold in India and the use of gold as currency?

Should the obligation be undertaken to give gold for rupees?

A.—As regards the minting of gold in India and the conversion of legal tender gold into legal tender silver and *vice versa* my Committee suggest that the recommendations contained in paras. 67 and 68 of the Babington Smith Committee's Report with necessary modifications should be given effect to. As for the use of gold currency, my Committee do not overlook the economic advantage of keeping gold in reserve against note issue. But looking to the fact that the confidence of the public in currency matters has shaken during the past few years, my Committee think it necessary that gold currency should be put in circulation as freely as the resources would permit.

Q. 7.—By what method should the remittance operations of the Government of India be conducted?

Should they be managed by the Imperial Bank?

A.—My Committee are of opinion that the remittance operations of the Government of India should be entrusted to the Imperial Bank of India and the Government should thus divest themselves of all this work which is really of a banking nature.

In this connection, my Committee may be permitted to say that sterling purchases are at present being made only in Calcutta, Bombay and Karachi. Under this arrangement, Rangoon has to sell to Government in Calcutta or Bombay and pay $\frac{1}{16}$ per cent. to the Imperial Bank to draw proceeds. My Committee therefore suggest that such purchases should be made in Rangoon also.

Q. 8. Are any, and if so, what measures desirable to secure greater elasticity in meeting seasonal demands for currency?

Should any, and if so, what conditions be prescribed with regard to the issue of currency against hundies?

A.—While my Committee consider the existing arrangements for the issue of seasonal currency satisfactory, they are of opinion that in order to make the amount of such currency more elastic, it is preferable to fix the limit of such currency at a certain percentage (say 10 per cent.) of the total amount of the note issue then in existence instead of fixing such limit at a specified figure.

Such currency should be made available in such a way as would prevent the Bank Rate under normal conditions, from rising above 7 per cent.

Q. 9.—Should any change be made in existing methods for the purchases of silver?

A.—As my Committee have suggested the discontinuance of any further coinage of silver, the question does not arise. In case, however, Government have to purchase silver for subsidiary coinage in the distant future my Committee would recommend that tenders should be invited in India in the currency of this country for delivery in India.

Lastly, my Committee would earnestly request the Commission to consider whether Government should not encourage Indian indigenous banks by depositing a part of their balances with them with a view to develop banking habit among the people. My Committee are of opinion that approved indigenous banks satisfying certain specific requirements as to the amount of capital and reserve, should enjoy this privilege on condition that Government shall appoint a director of their own on the Board. If this is done, it will go a great way in inspiring public confidence in such banks, and developing indigenous banking.

In conclusion, I am directed to say that my Committee have said all they had to say, in this memorandum. They therefore do not desire to supplement this by giving oral evidence.

APPENDIX 52.

Statement of evidence submitted by the Karachi Chamber of Commerce.

Q. 1.—(*a*) Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

(*b*) What is the comparative importance of stability in internal prices and in foreign exchanges?

(*c*) What are the effects of a rising and a falling rupee and of a stability of a high or low rupee on trade and industry including agriculture and on national finance?

A.—(*a*) It would be better to wait and see the effects of a bad monsoon on exchange, but otherwise the time is probably as ripe as it is ever likely to be. The demand for a new Royal Currency Commission arose in 1920-21 when the variations of the Rupee Exchange were *very wide indeed.* The demand has persisted since Exchange steadied, chiefly from those who want a lower basic rate of Exchange. Government had indicated the price of gold falling to British mint parity, as a test of the suitable time for further consideration of India's problem.

(*b*) The relations between internal price levels in India and its Foreign Exchange are so close that they cannot be considered apart.

From the point of view of the mass of the population, internal price levels are the more important.

(c) The products of India fall roughly into two classes, firstly, those that are directly and immediately affected by world price-levels, secondly, those not directly nor immediately so affected.

Instances of the former would be cotton, wheat, rice ,food-grains generally and oil-seeds. Instances of the latter would be meat, fish, eggs, milk, butter, ghee and rent.

Cotton-cloth and clothing generally in India would seem to occupy an intermediate position, not so quickly affected as the first-class, yet directly affected, but with a "lag" either way, caused by special conditions in these trades.

A rising rupee tends to make the cost of India's monopoly products higher to those countries which absorb them. Jute is a monopoly and goat skins nearly so to India.

It may be said generally that the cultivator participates in the high prices obtained for raw products, so long as exports are not curtailed thereby, and benefits also by cheaper imports.

The question of the owner cultivator, who must get more rupees for his produce at a 1*s*. 4*d*. exchange, than at a 1*s*. 6*d*. exchange value of the rupee, should not justify the Commission in deciding on the lower value, primarily because all prices have become adjusted to the higher value, and arbitrarily to reduce the rupee to a 1*s*. 4*d*. exchange value would create great hardship by increasing the cost of living by some 13 per cent. (not to mention very great confusion).

Secondly, because this class of cultivator must benefit to some extent, if not to the full 13 per cent., by having to pay less for goods he purchases that have been imported; or, even if the articles be made in the country, by their being reduced in price to compete with similar imported goods, even if the present policy of industrial protection is extended.

Thirdly, any great increase in price levels resulting from a 1*s*. 4*d*. rupee would mean an increase in the cost of living, which would hit the mass of the people hard. The extra share of the good things of life thereby allocacted to "proprietors" of all sorts, i.e., capitalists, would be at the cost of the masses who have little or no capital.

And the general discontent and unrest resulting, strikes, the bitterness of subordinate officials, with whom agriculturists have so much to do, and, above all, the increase in crime, which generally accompanies "hard times" everywhere, might easily, rather *would probably,* so affect agrarian and other capitalistic interests, as to make the position undesirable and life less pleasurable, than when prices were easier and the mass of people fairly contented.

The national finance is also benefitted by railway and engineering plant for development purposes being obtained at less cost, and Government remittances made at less cost to the taxpayer, and "exchange" after all is a *result*, the ratio expressed in rupee terms between the productivity of India, *plus* its reserves, against the combination of its internal needs and its external obligations.

In conclusion, it might be as well to repeat that in the course of his speech on the Budget Estimates for 1925-26 in the Assembly, Sir Basil Blackett made the following remarks on artificial manipulations:—

> "I say, therefore, that neither the producer, nor the consumer, nor the taxpayer, has anything to gain by legislative intervention to reduce the rate of exchange to 1*s.* 4*d.* gold from its present level of 1*s.* 6*d.* sterling, which for the moment is practically the same as 1*s.* 6*d.* gold. I would admit at once that a sudden fall in exchange from 1*s.* 6*d.* to 1*s.* 4*d.* would put money into the pockets of individuals in Bombay and elsewhere; it would also, no doubt for the moment, enable the Bombay cotton mills to charge higher prices for their produce at the expense of the consumer. But it would certainly not benefit the consumer, nor the wage-earner, nor the producer generally, nor would the benefit to the millowner be more than an ephemeral one. The truth is that rapid changes in the rate of exchange may for the moment help this or that section of the community, and that arbitrary intervention by the authorities, in order either to raise or lower the rate, always needs very strong justification. But what the country as a whole wants is stability—stability first and foremost in internal prices, and next in importance stability of exchange—and after a certain interval it makes little difference, either to the exporter or to the importer, either to the producer or to the consumer, what the precise ratio may be at which exchange may stabilise itself, provided that it remains fixed at that ratio for a reasonable length of time. On the other hand, it is a considerable disadvantage to the taxpayer in a country which has large payments to make abroad if the rate of exchange is deliberately and artificially depressed. It means that, among other things, the existing taxes and imposts provide a smaller amount of the external currency in which the external payments have to be made. In other words, more taxes have to be imposed, or the date of reduction of taxation has to be postponed. National causes connected with world movements of exchange and prices have recently tended to raise the exchange value of the rupee; why should the taxpayer be arbitrarily deprived of this advantage which has come to him from natural causes? Is it not far better to let natural causes continue to operate as the Government of India propose, and leave the final decision of the ratio to be determined by the Currency Committee, in the light of the further experience which a few more months will give us, when in addition to dealing with the wider questions which must come before them, the Committee can finally fix the ratio at whatever figure may be most truly in the interests, not of this or that section, not of the producer or the consumer, nor the taxpayer, considered in isolation, but in the best interests of India as a whole?"

Full agreement is held with the views of Sir Basil Blackett as above-expressed.

Q. 2.—In relation to what standard and at what rate should the rupee be stabilised, if at all? When should any decision as to stabilisation take effect?

A.—The present standard of rupee exchange is one reasonably and laboriously arrived at, expressing in rupee terms the current ratio between Indian productivity, *plus* reserves, against the combination of its internal needs and its external obligations.

India's productivity has been increased by a series of fairly good seasons and extended irrigation, and India's consumption moderated by economies which the people and Government alike have practised perforce since the commercial and financial disasters of 1920-21.

Regarding the present standard of exchange as one reasonably, laboriously, and gradually arrived at by natural processes, it is hard to see how the rise can be curbed at this stage, if on the one hand good seasons prevail and the people continue to restrict their expenditure on imports, cashing only gradually the credits arising from the real genuine balance of trade in India's favour by bullion imports, unless Government continue their immediate policy of providing all the rupees the public want at 1*s.* 6$\frac{3}{16}$ T.T.

Though it has been alleged that Government have deliberately manipulated the rise to this level by starving the currency and so forcing the public to buy rupees with sterling at constantly rising rates, Government would have been even more liable to criticism, and to criticism better based, if they had pursued the alternative policy of inflation.

Government, in fact, by moderate over-purchases of sterling at suitable stages have moderated and restricted the rise in exchange, which would seemingly, without such over-purchases, have got out of hand, and played havoc with internal prices, and caused heavy trouble in the inevitable reaction. Government's policy has, so far as policy could do so, had an effect of steadying Indian prices to the great benefit of the mass of the people.

It is obvious that this policy should be maintained, and that any new standardisation of rate should be undertaken, if at all, only at or about the standard already existing.

In no case should any violent dislocation of existing rates, calculated to upset internal prices, to breed mistrust and want of confidence, and leading to damaging reactions, as in 1920, be allowed consideration.

Provided standardisation, if any, is thus handled and not, as in 1920, the exact moment of its adoption is of minor importance.

Q. 3.—If the rate selected differs materially from the present rate how should transition be achieved?

A.—There can be no means of making a transition from the current rate of exchange to one widely different without chaos.

Q. 4.—(*a*) What measures should be adopted to maintain the rupee at the rate selected?

(*b*) Should the gold exchange standard system in force before the War be continued, and with what modifications, if any?

(*c*) What should be the composition, size, location, and employment of a gold standard reserve?

A.—The free sales of councils and reserve councils as required, within the limits of 1*s*. $5\frac{13}{16}$*d*. and 1*s*. $6\frac{3}{16}$*d*. to the full extent of the trade demand either way.

If Government could provide all the rupees required at 1*s*. $6\frac{3}{16}$*d*. T.T. as currency, out of such purchases, after providing for its own requirements for any two years ahead at least, it ought to build up the gold standard reserve to £100,000,000 in London.

This course would involve the gradual extinction of Government securities in the Indian currency reserve, which are in effect merely I.O.U.'s in the till, and the substitution of sterling in London.

Against that reserve Government ought to be under *standing offer* to sell sterling at the minimum rate agreed.

This is essentially the gold standard system in force before the War, modified to meet current needs.

The *standing offer* of sterling at all branches of the Imperial Bank, which ordinarily buy sterling (i.e., sell rupees for Government) is of great importance.

Without such sterling offer, after the disasters of 1920, the public could never have real confidence in any scheme of stabilisation. It may be regarded as the Indian equivalent of the Bank of England's standing offer of gold for export at the mint rate to support sterling exchange.

Q. 5.—(*a*) Who should be charged with the control of the note issue and on what principles? Should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?

(*b*) What provisions should be made as to the backing of the note issue?

(*c*) What should be the facilities for the encashment of notes?

(*d*) What should be the policy as to the issue of notes of small values?

A.—There seems a general inclination towards handing over the management of the note issue to the Imperial Bank of India.

To this there can be no reasonable objection on the necessary trained staff being transferred on equitable terms from the service of Government to that of the bank, provided always the bank acts solely as the agent of Government and Government itself retains the sole responsibility.

There is a grave objection to the Imperial Bank acting at all as the issuing authority, except as the mere agent of the Government.

This objection is not one against the bank itself, but arises rather from the habit and outlook of the peoples of India, especially outside the great ports.

To the mass of the peoples of India the name of the Sirkar stands for all that is powerful, reassuring, and permanent.

The popularity of the currency note issue has grown slowly, but steadily, because the notes are *Government* notes. The name "bank" means little or nothing in the country at large; where it means most it spells distrust and suspicion and bitter memories of the bank failures of 1913, most of which were

indisputably due to faulty, even fraudulent management and dishonesty, while the exceptional cases of mere misfortune caused no less loss to depositors and shareholders. If currency notes ceased to be Government notes and became BANK NOTES their popularity would be destroyed, and the progress of the whole country towards saner financial practice set back for at least a generation.

Corroboration of this opinion should be sought not from town-bred financiers, nor from professional economists, but from district officers in touch with the views and common prejudices of the masses concerned.

Further, under the gold exchange standard system suggested in Answer 4 the responsibility for its maintenance would depend on Government, while silver and notes would remain a managed token currency for internal use. The monopoly of the issue of such currency, being an integral part of the scheme, would necessarily remain with Government.

The backing of the note issue should be in silver held in India, where it is required, to as large an extent as possible, allowing for the sterling in London that has also to be held. There should be no more *ad hoc* Government securities in India.

It is plain that this currency reserve in London could only be drawn on against the surrender of currency in India at the minimum rate, so that the balance would be struck automatically.

So also would it be if in times of stress Government had to utilise any part of it temporarily to buy silver for coinage to issue at 1*s.* 6$\frac{3}{16}$*d.* T.T.

The current arrangements for cashing notes in silver seem quite satisfactory, especially as silver is less popular than it used to be.

The question as to whether small currency should be stamped on silver or printed on paper is chiefly one of the cost. Small notes are convenient and popular.

Q. 6—(*a*) What should be the policy as to the minting of gold in India and the use of gold as currency?

(*b*) Should the obligation be undertaken to give gold for rupees?

A.—There is no more vexed question than that concerning the minting and use of gold for currency in India.

Some take a sentimental stand, and demand Indian gold currency as an outward and visible sign of India's growing wealth and standing amongst the nations of the earth. Others demand gold as the one means of turning the currency from a managed one, to an automatic one, and affect to believe that an automatic gold currency would stand impregnable against all vicissitudes and changes, and would solve all problems.

Some advocate gold as the sole means of reducing the rupee from the current basis to 1*s.* 4*d.* These last are chiefly employers of labour, who, worsted by their workpeople after a long conflict in their efforts to reduce rupee wages, now seek to win a more subtle victory by reducing effectively the buying power of the rupees they pay out perforce.

Among these last there are some who suggest that the silver contents of the rupee should also be reduced to 50 per cent., lest any rise in the price of silver should again menace their 1*s.* 4*d.* ideal.

The danger of such a course hardly needs explaining.

The rupee is the historic coin of India, and is closely interwoven with the traditions of centuries.

India is essentially a conservative country.

A Government that debased the rupee would forfeit the confidence of the mass of the people.

But, indeed, these last may be held to acknowledge that the real objection to the use of gold as currency is the vast number of silver rupees in the hands of the people, in circulation, in the banks and treasuries, *and in hoard.*

The last at least are incomputable.

The addition of gold to the currency would obviously inflate the currency, raise the price-levels, and reduce the purchasing power of the rupee. Even if the gold, as hitherto, passed into hoard (and here it may be remarked that of the gold mohurs minted by Government in 1918 none are extant, though they were stamped 15 rupees, and as such would be still legal tender to Government at least, while now their gold content is worth only Rs. 13-4-6) it would be largely in substitution for silver rupees already in hoard, so that the inflation of currency would be appreciable.

Gresham's law is as evident an economic fact as it always was. The rupee, with an intrinsic worth of 1*s.* against a purchasing power of 33 to 50 per cent. higher, must always drive out of circulation any coinage of similar purchasing power, but of higher intrinsic value.

Bimetallism cannot work.

The automatic gold currency system, for all its supposed "impregnability," broke down practically in every country in the world under the stress of the Great War, except in the U.S.A., which profited by the War. Even in Japan, in spite of her War profits, the yen collapsed after the 1923 earthquake. If India could afford the cost of replacing all rupees by gold the necessary amount of gold is not obtainable, and partial replacement is not practicable, owing to the action of Gresham's law. Nor is it conceivable that the Government of India itself, the greatest of all employers, should link itself with private employers in a subtle conspiracy to reduce all effective wages.

There should be no obligation on Government to give out gold in change for rupees, but only sterling at the minimum rate as indicated in Answer 4.

Q. 7.—(*a*) By what method should the remittance operations of the Government of India be conducted?

(*b*) Should they be managed by the Imperial Bank?

A.—(*a* and *b*) The present methods of Government's buying sterling remittances are working excellently. In between the suggested standardisation limits of 1*s.* $6\frac{3}{16}$*d.*-1*s.* $5\frac{13}{16}$*d.* Government could, as at present, suit itself as to what remittances it made for its sterling requirements in London, as also, perhaps, for increasing and building up the gold standard reserve in London, except that at the Maximum of 1*s.* $6\frac{3}{16}$*d.*, it *must* issue all the rupees required by the public.

Good management would be required, but there is no reason to doubt the ability of Government to continue its present good management.

Q. 8.—(*a*) Are any, and if so what, measures desirable to secure greater elasticity in meeting seasonal demands for currency?

(*b*) Should any, and if so what, conditions be prescribed with regard to the issue of currency against hundies?

A. (*a* and *b*) The present amended currency expansion arrangements are working satisfactorily for increasing the amount of currency during the export season, viz. :—

(1) Loans to the Imperial Bank from the currency department against Inland bills.

(2) The issue of currency against sterling securities under the Paper Currency Act.

Both methods come under the heading of *inflation*, and since practically all Treasury balances are now kept with the Imperial Bank, and their sum total is known, they appear very small as against the heavy superstructure of credit in India.

The working of scheme No. 2 has resulted in Governmment getting heavily overbought in sterling on a basis of 1*s.* 6*d.*, which will be increased each successive good export season, *unless* the additional currency created thereby in the busy seasons comes back automatically in the slack seasons by Government supporting exchange down to the suggested minimum of T.T. 1*s.* $5\frac{13}{16}$*d.* as money rates ease and exchange falls.

As regards scheme No. 1 no hundies save those as at present put in by the Imperial Bank should be accepted.

Q. 9. Should any change be made in existing methods for the purchase of silver?

A.—Yes; Government should be allowed to purchase it in the cheapest market, which may at times be Bombay itself.

APPENDIX 53.

Letter from the Honorary Secretary, The Karachi Indian Merchants' Association, Karachi, to the Joint Secretaries to the Royal Commission on Indian Currency and Finance, dated the 16th December, 1925.

In accordance with the letter of the Assistant Commissioner in Sind, asking the Association to communicate their views direct to you, I am directed by my Association to state as follows :—

Turning to the terms of reference shown in the accompaniment of the said resolution, it is submitted that as a matter of fact there was no well-thought-out system, and the present system (which even according to Chamberlain Commission, was), is what is known as gold exchange standard system. This gold exchange system should be given up and effective Gold Standard system with a Gold Currency in circulation, be adopted; and that for the prosperity of the country, the sooner this system is abolished, the better, for (*a*) being unscientific in conception and harmful in practice, it has resulted in economic inefficiency; (*b*) it is so very liable to manipulation and has facilitated currency manipulations resulting in disastrous consequences, and (*c*) it is nearly thirty years since the Fowler Committee recommended the adoption of gold standard with gold currency and that too decided to give up silver standard. But that those recommendations were disregarded by the Government of India and the unjustifiable policy of manipulating currency in their own interest and perhaps in the interests of London bankers who are against any gold coming into this country, and by whom the world's central gold market is controlled, was continued. As a result thereof, the gold needed for India had to be tendered to London Bankers and enormous quantities of the token rupee were issued against the sterling tendered in London to the Secretary of State in spite of repeated protests. In response to agitation for gold standard, the Commission, known as Chamberlain Commission, was appointed, which, to the dismay of the country, upset the purposes of the Fowler Committee's recommendations and alleged that the gold standard had already been secured without the gold currency. This attempt, in fact, was responsible for several errors committed since then.

Proposed modifications.—To avoid manipulation, as far as possible, the first and foremost modification proposed by my Association is the adoption of gold standard with gold currency in circulation, so that the people of the country may know what their real standard is. To achieve this object the mint should be open to coinage of gold and the sovereign, which is the gold mohur of 1918, be allowed to continue as the legal tender in India; and that in order that this gold standard may be more effective, (*i*) no further rupees should be coined; and (*ii*) any gold tendered by bankers for local currency be coined into mohurs and kept in Paper Currency Reserve for circulation.

My Association are of opinion that the gold mohur should have a fixed ratio with the rupee, i.e., 1 : 15, to avoid the past contracts made in terms of rupees being vitiated.

In view of a very large circulation of rupees and considering the earnings and disbursements of the masses in this country, my Association would suggest that the present rupee should be allowed to remain as unlimited legal tender for about 10 (ten) years.

The next point on which my Association would like to lay stress is that no Currency should be issued in future against anything but gold. Sales of Council Bills should be restricted to the needs of the Secretary of State.

In the opinion of the Association the control of currency and notes issue should be transferred to the Imperial Bank of India and the remittance should also be operated upon through the said bank and its duties in this regard should be clearly laid down by law and it should not be allowed to do any foreign exchange business in its own account. My Association would, however, urge that the Finance Department should divest itself of all this work which is essentially of a banking nature, it merely fixing dates and amounts in the Budget Estimates for the year. In fact, under these conditions the Secretary of State will have no reserve with him and any balance left over with him should be deposited with the Imperial Bank of India in London. In cases of emergency necessitating ready funds over this balance, commitments could either be postponed or fulfilled by aid of short-time-borrowings.

Touching upon the questions suggested in your Memoranda it is submitted that in the opinion of my Associaton the time for currency reform is ripe these two years—nay even more ripe for reversion to gold standard in India than any

of the dominions, for many countries have now reverted to the gold standard, while India is the one country whose balance of trade has given it command of very large amounts of gold, lacks behind.

As regards the stability in internal prices and in foreign exchange, my Association's view is that it can be best achieved by effective gold standard as it immediately makes Indian exchange stable with other gold standard countries, so that the consumer in this country may not suffer in comparison with the consumer in other countries.

Regarding the first question, viz., effects of a rising and falling rupee, etc., my Association's reply is that there is no question of stabilising the rupee. The effects of fixed appreciation and depreciation of a rupee, to say the least, are morally harmful to the welfare of the country. All my Association desire is gold standard.

As regards methods of transition from the existing, my Association would leave the matter to experts.

As for the composition, size, location and employment of our Paper Currency Reserve, my Association propose that (*a*) it should be composed very largely of gold coin though a portion thereof may consist of securities: the gold part remaining in India to be utilized to foster industrial expansion of this country, as far as necessary, while the securities in England.

As for gold reserve, a part of it may be transferred to the Paper Currency Reserve, with a view to facilitate the establishment of an effective gold standard. The interest accruing on paper currency to be regarded as revenue earnings and the interest on gold standard reserve should be added to the revenue itself.

As regards the question of seasonal demands for currency my Association would suggest that the total of such currency to be issued should be 10 per cent. of the then existing note issue with due consideration of the bank rate.

With regard to the remaining questions, the views of my Association have already been indicated in the earlier part of the Statement.

APPENDIX 54.

Statement of evidence submitted by Mr. S. N. Pochkhanawala, The Central Bank of India, Limited, Bombay.

England has returned to gold standard and has stabilized its currency, and the results of the past few months have shown that the step taken was in the right direction. The Government should have taken the question of stabilization of the rupee long before, as most of the leading countries of the world have now reverted to the gold standard and there is no reason why India should be left behind. The heavy fluctuation in exchange rates in India in the last few years has given a death-blow to some of the industries of the country and the Government manipulation in exchange, even to steady the rates, is hardly desirable in the interest of the country. India is known to be an agricultural country, but since the war a great many industries have been started in which its own people have invested crores of rupees with the idea of increasing the wealth of the country by industrial process and thus utilizing the raw produce for the greater benefit of the country. It is desirable that there should be some stability in internal prices and in foreign exchanges, as the recent fluctuations have not only affected adversely the trade conditions, but, in some instances, valuable and most promising industries have suffered considerably and it is high time that some solution is found for the stabilization of the rupee. The right solution, in my opinion, is to establish a real gold standard system with gold currency in circulation.

The system of "managed currency and exchange" deprives the country of the advantages of natural and automatic adjustments which a currency and exchange based on a gold standard pure and simple has, viz., the inflow and the outflow of gold having its instantaneous effect on the level of internal prices and thus bringing about the stabilization without the help of any external force.

As to the question of gold currency, the sovereigns or gold mohurs should be minted in India, as it is done in the Dominions.

Provision should be made for the coinage of gold tendered by banks for local currency. All further coinage of rupee should be entirely discontinued and new coinage should be confined to gold only. The present rupee currency should continue to be legal tender till such time as the gold standard works effectively.

In view of the hoarding habits of the people it is natural that it should take some time before the gold standard and the gold currency are regularly and effectively established in the country, but there is no reason why a definite policy should not be adopted by the Government on these lines.

The control and management of note issue should be handed over to the Imperial Bank. The backing should be in gold so far as possible and the encashment facilities of notes into gold or silver should be left on the option of the Government, so as to protect the reserve of gold against any undue raid by the public.

The rupee exchange should not be stabilized at a higher level than in the pre-war days, nor can the rupee exchange be fixed at a lower rate than the pre-war rates of the rupee exchange without affecting adversely the import and the export trade of the country as well as the national industries and the national finances. The best way is to fix the rate of rupee exchange at the pre-war level of 1*s.* 4*d.*, and the rupee should be fixed in terms of gold at the pre-war rate, i.e., Rs. 15 to the gold sovereign, pending the adoption of a full-fledged gold standard, i.e., a gold standard and a gold currency.

The sale of Council Bills should be restricted to the actual needs of the Secretary of State for the year.

To secure greater elasticity in meeting seasonal demands for currency the Imperial Bank should encourage the rediscounting system among banks, and the following conditions be prescribed with regard to the issue of currency against hundies :—

4 crores at 6 per cent.
5 crores at 7 per cent.
10 crores at 8 per cent.

The amount should be about 10 per cent. of the existing note issue.

As there will be no more coinage of rupee required, there will be no need to purchase any more silver for many years to come.

APPENDIX 55

Statement of evidence submitted by Sir DINSHAW E. WACHA, of Bombay.

Q. 1.—Is the time ripe for a solution of problems of Indian Currency and Exchange by means of measures of stabilisation of the Rupee or otherwise?

A.—I believe the time is fairly ripe at present for a solution on right lines and on an enduring basis the tangled problems of Indian Currency and Exchange which are the subjects of a prolonged and animated controversy. It is generally recognised that the Indian Exchange System, in vogue during the years immediately preceding the Great War, was in reality one of sterling rather than gold exchange standard. It is also admitted by business men of long experience that the Indian Currency System is not sufficiently automatic as it should be. It is owing, perhaps, to the overpowering influence exerted by the India Office. It was greatly marked during that disturbed period when what is known as the system of "Reverse Councils" was most in evidence. The appointment of the Currency Commission, therefore, is generally welcomed, as it is hoped that independent and exhaustive investigation, with an open mind, will lead to the eventual establishment of a scheme which shall stabilise the Rupee on a sound basis and make the Currency itself perfectly automatic.

Q. 1. (*a*)—What is the comparative importance of stability in internal prices and foreign exchanges?

A.—It is now generally recognised by the highest financial authorities of the West that international exchange greatly depends on the stability of world prices. Stable world prices in their turn influence internal prices. These, in their turn, affect foreign exchanges. Thus, the three factors are interdependent. They act and react on each other. If world prices can be expected to remain comparatively stable, a stable exchange means stable internal prices. If not, India requires above all stable internal prices.

Q. 1. (*b*)—What are the effects of a rising or falling Rupee and of stability of high or low Rupee on trade and industry including agriculture and national finance?

A.—The effect of a rise or fall of the Rupee is, in my opinion, temporary only. Prices naturally adjust themselves sooner or later unless greatly disturbed

by abnormal or unseen factors, or by the action of "corners" which are unnatural and mischievous. But in the interval, that is, within the intervening period when adjustment is proceeding in its natural course, some must gain and some must lose. At one time the importer may be a gainer; at another time the exporter; and *vice versa*. That is inevitable. Moreover, it should be remembered that in this age of refined trade and industrial organisation and surer system of conserving national finance, there is the advice, technically known as "hedging" whereby the risks attendant on a rise or a fall are minimised to no inconsiderable extent. The effects, however, for the time being are, it may be repeated, temporary. They are in no way everlasting. Otherwise, trades and industries, agriculture and national finance, would be paralysed to an appalling and intolerable degree. But there never has been a permanent paralysis, which, therefore, is conclusive proof of the fallacy of those who talk of the evils contingent on a high or low exchange.

Q. 2.—In relation to what standard and at what rate should the Rupee be stabilised, if at all?

A.—The Rupee, if it is to be stabilised at all, could be best stabilised with a gold standard, with or without a gold currency in India. The world's trade is now mostly carried out on a gold basis. Gold prices are quoted everywhere save in the East. India's foreign trade is for years past almost wholly international. Under the circumstances it is wisdom to place the Rupee, stage by stage, with caution and circumspection, on a gold basis. In my opinion a gold currency (unless bimetallism once more holds sway as it did for well nigh 400 years) may perhaps be not at all essential. As the people of India, always conservative and a great deal suspicious of the "Sarkar's" monetary policy, get themselves better educated and fairly well accustomed, it may be taken for granted that they will clearly perceive the inutility and waste of metallic currency for all practical intents and purposes, and altogether dispense with it. It would be prudence on the part of the Government of India to bear this ideal steadily in mind. My countrymen should be taught in an intelligent and practical manner to rely more and more on Notes the circulation of which should be steadily increased in proportion to the wants of the growing population and trade, great care and caution being taken that no inflation follows such expansion so as to debase the currency and contract the purchasing power of the people. The trend in the Europe of to-day, under modern financial reconstruction seems to be toward that goal, though of course it will take some time yet to arrive at it. The stabilisation of the silver Rupee will never be assured so long as it remains unlimited legal tender. The ideal to be aimed at should be inconvertible notes on the lines laid down at Genoa, namely, at their gold par, by a system that makes them absolutely convertible into foreign currencies in countries having a gold standard and a subsidiary coinage which is *not unlimited legal tender*.

Q. 3.—If the rate selected materially differs from the present, how should transition be achieved?

A.—Fluctuations in the Rupee during the transition stage will no doubt occur. But these can be achieved, though difficult and costly, by the resources of the Government which, I believe, are now greatly improved, thanks to the efforts of the Financial Department and its talented Chief during the last 3 years. The difficulties can be surmounted and the Rubicon safely crossed. What is wanted are reasonable arrangements which can be devised between the Bank of England, the Federal Bank of New York and the Imperial Bank of India whereby the excess demand of gold which may arise in the transition period can be met. Indeed, such an arrangement would lead to a general appreciation of gold all the world over and afford larger facilities to sound and substantial banks.

Q. 4.—What measure should be adopted to maintain the Rupee at the rate realised?

A.—India should be given the opportunity to obtain gold at will in exchange for its currency, and the Rupee will automatically stabilise itself. People will themselves see the practical wisdom of giving up the wasteful habit of using Gold Currency and of hoarding it.

Q. 4. (*a*)—What should be the composition, size, location and employment of a Gold Standard Reserve?

A.—The Gold Standard Reserve should be maintained as it was so well maintained between 1908 (after the New York crisis of 1907) and 1914. For the first few years it should have a backing of gold currency up to a certain well-defined limit. Later on, as people get more and more educated and accustomed

to the use of inconvertible notes for inland purposes, the backing may be altogether discontinued. Care should be taken that all the evils arising from a debased currency now so well known are avoided. The location should be largely in India, and partly in London. I am not in favour of the policy which would dictate the entire location in India. A few years' practical experience of the whole-hog policy would soon lead to its reversal. I am firmly of opinion that a partial location in England, say, 40 per cent. as a maximum, in a fluid state, will be of the utmost value in times of certain emergencies or of a monetary crisis, having regard to the close financial relations of the State with England. London and New York are the only markets of the world for gold, and gold at any time can be best converted into money which India will and must want, say what they will, till the beneficent British connection endures. This emergency can never be so successfully, so speedily and so economically met by the whole-sale location of the reserve in India, specially in times of a crisis leading to panic and sudden dislocation of the monetary system. It is a thoughtless cry that urges Government to have the whole amount of gold in the Gold Standard Reserve in India. Its employment, of course, should be for no other purpose than to support exchange.

Q. 5.—Who should be charged with the control of the Note Issue and on what principle should control or management be transferred to the Imperial Bank; and, if so, what would be the general terms of the transfer?

A.—The issue of Notes should be controlled by the Imperial Bank of India in consultation with the Finance Department of the Government of India. In fact, it is most advisable to follow closely, so far as Indian conditions permit, the arrangement at present in operation at the British Treasury with the Bank of England. But the principle on which notes should be issued and withdrawn, as well as their control, must rest with the Imperial Bank. The terms of the transfer can be resolved upon by a Special Committee to be appointed for the purpose, say, of the Finance Member, the chief authority presiding over the Imperial Bank, the Controller of Currency and a representative of European commerce and one of Indian, both qualified and enjoying "public confidence."

Q. 5. (*a*)—What provisions should be made as to the backing of the note issue?

A.—The backing of the note issue should be as at present—a certain percentage of gold, silver, and Government securities.

Q. 5. (*b*)—What should be the facilities for the encashment of notes?

A.—Facilities for the encashment of notes by the Imperial Bank at its Head Office, branches, and at district treasuries, where the Bank may have no branches, should be insisted upon, so that no cry may be raised, as in some former years, of scarcity of coins, specially for domestic wants of the humblest classes. But the obligation to give gold for Rupees should be left entirely to the discretion of the Bank according to time and circumstances. What, however, should be guarded against is the creation of "corner" by confederacies or syndicates of bullion dealers, speculators and stockjobbers.

Q. 5. (*c*)—What should be the policy as to the issue of notes of small values?

A.—The same policy as is pursued at present but more liberal in view of getting people steadily accustomed to inconvertibility of notes. Five and Ten Rupee notes should be extensively circulated, but with due caution against inflation which may unfortunately lead to debasement and a serious contraction of popular purchasing power. It is also advisable to resume the issue of One Rupee notes of a better size, better design and more endurable paper. Such notes should be broadcasted and their encashment fully ensured and facilitated at every branch of the Bank and small district treasuries, say, up to Five rupees in silver. I venture to observe that it was a mistake to have withdrawn the rupee notes from circulation just when they were coming into more and more popular favour and in greater demand. I differ from the reasons assigned by the Currency Controller and the European Chambers, notably of Bengal. Even assuming that it costs more to print a Rupee note than to coin a Rupee, I would risk without hesitation the additional expense which can be recouped out of the profits made in silver purchases.

Q. 6.—What should be the policy as to the minting of gold in India and the use of gold money?

A.—To many it has been a matter of regret that the Government, after opening for a few months a branch of the Royal Mint, should have suddenly closed

it. It is true that coins of the nominal value of over 3 crore rupee were struck and that these came back to the Treasury. At the same time *no active efforts* were made to *effectively* support the Gold Standard by an *active* gold currency. I pass over the deplorable consequences which arose from the plethora of some 70 crores in gold which accumulated, the sale of "Reverse Councils" and other stopgap measures of a character far from wise. It is to be hoped that there never will occur a repetition of that collossal blunder.

Q. 6. (*a*)—Should the obligation be undertaken to give gold for Rupees?

A.—Discretionary power only should be given to exchange Rupees for gold under special circumstances.

Q. 7.—By what methods should the remittance operations of the Government of India be conducted, and should they be managed by the Imperial Bank?

A.—The remittance operations should be entirely left to be conducted by the Imperial Bank under proper safeguards so as not to disturb the smooth course of exchange to the prejudice of India.

Q. 8.—Are any, and if so, what measures are desirable to secure greater elasticity in granting demands of currency?

A.—Existing measures in operation are fairly elastic. The Imperial Bank, however, may be empowered to extend still more the discounting of first class Mercantile Bills to a larger extent if imperatively needed for a time. Or the Government may from time to time raise the limit by an executive order in case of severe monetary stringency.

Q. 8. (*a*)—Should any, and if so, what conditions be prescribed with regard to the issue of currency against hundis?

A.—The issue of currency notes against hundis during the busy season, if demanded, should be permitted. But the Bank should see it creates no inflation and that it safe-guards itself so far as to suffer no loss. Hundis are nowadays growing very risky documents. Sometimes they create havoc in the market. Endorsements must be limited to 2 or 3 endorsees. The endorsees must themselves be absolutely solvent parties. Hundi transactions are prolific of evils and bona fide monetary business is greatly crippled at times, specially when "kiteflying" by all and sundry is immensely on the increase. Hundi brokers are generally of no fiduciary character and they abscond when a monetary crisis occurs. The Bank should engage guarantee brokers who will deposit substantial security with the Bank, for, say, not less than a lakh of rupees. The security should be forfeited if the Bank incur loss on account of them.

Q. 9.—Should any change be made in existing methods for the purchases of silver?

A.—There is but one safe and certain method of purchase of silver. The Mint Masters at Bombay and Calcutta should be empowered to buy silver as needed from time to time under the directions of the Controller of Currency. There should be no monopoly of a broker.

Concluding Remarks.

In conclusion, I may be permitted to observe that what India wants is a Currency which should be a great improvement on the present system, say at 1/6 gold. India is absolutely unprotected against the effects of a rise in the value of silver above 48d. gold. Therefore, it would be wise to take away the present legal tender character of the Rupee. The Imperial Bank should be so *reconstituted* as a State Bank, but certainly *not as owned* by the State, as to be able to definitely control the discount and monetary policy of the country. This would be greatly simplified by making notes convertible into gold in India. Lastly, it is most advisable in the financial interests of India that the less there is of the unnecessary interference of the India Office in these matters the better it will be for the smooth working of the Currency System that may be recommended by the Commission.

APPENDIX 56.

Statement of evidence submitted by Mr. Harkissendas Bhatter, Managing Partner of Sir Sarupchand Hukumchand, Kt., Sir Sarupchand Hukumchand and Co. and Messrs. Johurmull Gumbheermull, Calcutta.

I, Harkissendas Bhatter, am the Managing Partner of—

1. *Sir Sarupchand Hukumchand, Kt.*, of 30-2, Clive Street, who have been trading in different parts of India for over 70 years as importers of Cotton and Woollen piecegoods and Sugar, and in Jute, Hemp, Coal and Linseed.

2. *Sir Sarupchand Hukumchand & Co., Managing Agents.*—Hukumchand Jute Mills Ltd. and owners—Hukumchand Electric Steel Works, of 30, Clive Street, who have been trading in different parts of India for over 10 years in Jute, Jute Goods and Steel Castings.

3. *Messrs. Johurmull Gumbheermull* of 30-2, Clive Street, who have been trading in different parts of India for over 70 years as large importers of Galvanised Corrugated Iron Sheets and Ridgings, Brass Sheets and Ingots, Copper Sheets and Ingots, Spelters and in Cotton and Cotton and Woollen piece-goods, Linseed, Rice, Jute and Hemp.

4. We do banking business in addition to the business named above, and we come in close contact with the cultivators of Bengal and of the other Provinces in India, where we have branches. We also happen in the course of our business to have financial dealings with the cultivators and we have had opportunities of studying their needs and their conditions as affecting the position of the cultivators from year to year.

5. The result of our experience of the past years is that whenever exchange is put higher the cultivator's prosperity goes down and his buying power is seriously affected. During the War period and till 1921 the increase in price of raw materials in India was so abnormal that the above-named phenomena was not very clearly perceived, but now that things have returned to the normal and the world prices of raw materials exported by India are about the normal we have no doubt in our minds that the increase in exchange does affect and will for a long time continue to affect adversely the cultivator of India. Whilst the cultivator is expected to pay the same amount of rupees with exchange at 1*s.* 6*d.* as was fixed when exchange was at 1*s.* 4*d.* and whilst he has to pay the same amount of rupees again to his lender the proverbial Sowcar, the appreciated rupee undoubtedly affects the balance of saving of the cultivator. It is our confirmed conviction that any exchange fixed higher than 1*s.* 4*d.* will be to the enormous loss of the cultivator of India.

6. The rupee is a token coin worth only 10 annas in its bullion value. The confidence of the people of India in the rupee is therefore naturally diminished. The sooner the rupee is made a restricted legal tender the better for both the credit of the Government and for the genuine interests of the people of India. Now when gold is freely available we consider it the bounden duty of the Government of India in fairness to the people of India to adopt the Gold Standard and to make available to the people of India a suitable gold coin.

7. We understand that the Fowler Committee of 1898 recommended this, but for some reason of State or other the Government of India delayed carrying into execution the very sensible recommendation of the Fowler Committee. We also are aware of the notable Minute of Dissent of Sir James Begbie, ex-Secretary and Treasurer of the Bank of Bombay on the Chamberlain Commission Report, which Minute will always stand to the credit of Sir James Begbie as being the result of his mature experience of Indian conditions and of his great sense of fairness to the people of India. We cannot sufficiently admire the courage of conviction of Sir James Begbie in recording this Minute of Dissent.

8. Our community is known as the Marwari community and we claim that for the major part of India Members of our community are bankers to the masses of India. We therefore feel that representatives of our community have a special claim to submit the result of their experience for the information and guidance of this Royal Commission. We feel grateful to His Majesty the King Emperor for having appointed a Royal Commission to enquire into this question of Currency of India, which we hope will arrive at a decision which will be beneficial to India and do justice to her.

9. There is a general impression created primarily in England and lately in some parts of India in the upper circles that India is a sink for the gold of the world. How incorrect and misleading this impression is will be amply proved

by the figures given by the Bengal Chamber of Commerce in their evidence before the Babington Smith Committee. (*Vide* Volume of the Minutes of Evidence.) We need only say that India has not yet received her full quota of the share in the world's production of gold, and if the people of India have not used the gold hitherto in the correct manner in which it is being used in the West, it is our conviction that such defect is due to two reasons:—

(1) owing to the comparatively poor standard of education of the masses of India, and

(2) and the more important, because of the very defective and faulty currency policy of the Government of India till now withholding from the people a gold coin and compelling the people to use as unlimited legal tender a token coin the bullion value of which is $\frac{5}{8}$ths of its face value.

We need hardly add that no people in the world, can trust such a currency and as long as the Government persist in this policy of theirs, they are forcing the people of India, against their own will, to put to uneconomic use the precious metals to which they are entitled. We will therefore again implore the Commission to come to a correct decision and allow no stories of the nature indicated by us in the first paragraph to come in the way of a correct decision.

10. We hear occasionally of the isolated stories of a few silver rupees and a few bars of gold being found with some people. This is the inevitable result of want of education and at times to the social customs of the Hindu society and we feel that the latter instead of being adjusted to the latest ideas of the West are being strengthened in their hold on the people by the faulty currency policy of the Government and we feel that the responsibility for hoarding as it is called must be laid at the doors of the Government of India.

We therefore summarise our requirements as under:—

(*a*) Gold standard and gold currency for India without any delay.

(*b*) Exchange to be stabilised at 1*s*. 4*d*. to the rupee.

(*c*) The Government of India and the Assembly here to be left undisturbed from outside in deciding upon the financial policy best suited to India.

APPENDIX 57.

Statement of evidence submitted by Mr. P. B. Junnarkar, Head of the Department of Commerce, Dacca University, Dacca.

1. The time is certainly not ripe for the stabilisation of the rupee if this means stabilisation at the level of 1*s*. 6*d*. (gold). But the time for the formulation of a definite monetary policy is long past. When the conclusions of the majority report of the Smith Committee were disproved by later developments, the only procedure was to take more seriously the minority report of the only member of the Committee whom events proved to be in the right. Had this been done, the present difficulty would not have arisen.

2. Stability in external prices is more important than stability in exchange. This can be achieved only by linking a currency definitely to a standard. While gold may not be an ideally perfect standard of value, there is no practical alternative to it by which its use as a monetary standard could be dispensed with, unless silver is utilised as a last resort.

Stability of exchange is besides a meaningless quest. The rate of exchange of one currency in terms of another would reflect changes in the purchasing power of *both*. Fluctuations in exchange rates in so far as they arise from conditions prevailing in other countries would be beyond Indian control.

Fluctuations in the value of the unit of currency in terms of commodities and services, where the term "fluctuation" must be held to include a continuous rise or a continuous fall also,—are undesirable in the interests of trade,—especially the internal trade which is more important than the foreign,—and industry including agriculture. The evidence of index-numbers so far as it goes indicates that the rupee has been rising since 1920, in terms of commodities, in spite of apparently contradictory exchange movements. The rise, however, should be regarded as artificial in so far as it is due to a "relative contraction" of the currency in regard to the expanding needs of commerce. The distress of important Indian industries may be referred to this process of "deflation."

While a falling price-level is in the interest of consumers, it has to be realised that a consumer is also a producer. It serves little purpose to tell an agriculturist that he has to pay less for the commodities he buys, if the price of his produce falls simultaneously, especially as he has to pay the same amount in taxes from the reduced price realised for his produce. This has only the effect of increasing the burden of taxation on the key industry of India.

The only cheapness that matters in the interests of a consumer is that brought about by abundant supplies from increased production, and *not* what is brought about by an artificial control of the money supply, which is besides injurious to production.

A " real " rise in the value of the monetary unit would be reflected in a fall in the cost of production as well as the prices of commodities. Goods and services should be affected equally by a change in the value of the monetary unit. The evidence as regards the movement of wages and salaries is clearly against such a conclusion.

The rise of the rupee in terms of goods is artificial in so far as it has resulted from an artificial limitation of currency, and temporary in so far as it does not appear to have affected services. It is urgent in the interests of the country that this " deflation " must cease, and a provision be made for an automatic increase in currency in accordance with the needs of commerce and industry.

This reversal of the policy of " deflation " should not be interpreted to mean " inflation." Not every addition to currency is inflation. A state of " inflation " commences only at the point where currency is forced on trade *beyond* its actual requirements. A sound monetary policy also postulates an expansion of currency provided this expansion is in response to the legitimate needs of commerce.

3. In so far as this artificial process of " deflation " is responsible for the rise of the rupee in terms of goods, it is also responsible to that extent for the rise of the rupee in terms of gold. Probability would indicate that the rise in terms of gold has been further exaggerated on account of special circumstances affecting gold.

It will be recalled that temporary causes which made *sterling* cheap brought about a rise in the sterling value of the rupee in the latter half of the year 1921,—a rise which reached the height of 1*s.* 5½*d.* in September, 1921—though such a rise was not warranted by trade conditions. It will be further noted that the rate of exchange found its natural level after a period of about 10 months, though the official policy stood aloof from a commitment direct or implied.

A possibility cannot similarly be put altogether out of account, that causes, equally temporary, might have made *gold* cheap thus bringing about a rise in the gold value of the rupee. In June, 1924, the rupee was only 1*s.* 3*d.* (gold). It was in August, 1924, that a precipitate rise began carrying it to 1*s.* 4*d.* in a month and to 1*s.* 5*d.* at the end of the year.

The world movement of prices in terms of gold has still to declare itself. It will be singularly unwise to base a permanent policy, taking the present world conditions regarding the relation of gold to commodities as normal for all times. It will be a mistake to discount authoritative opinion in Europe about the probable appreciation of gold in the future.*

India is not alone in the violent rise of its monetary unit in the exchange market. A policy of conscious currency and credit restriction pursued in Denmark and Norway had its inevitable reaction on the external value of their respective currencies, providing for the development of a considerable volume of bull speculation and leading to the distress of the industry and trade. A general desire, in favour of a return to the pre-War gold parity has probably reconciled these countries to such a policy.

* It would be useful to enquire of those who favour the present level of 1/6 as warranted by the Indian and the world price-level, on the strength of the now fashionable doctrine of the purchasing power parity,—whether the present world price-level is normal, and the present Indian price-level is natural as a result of a natural monetary policy,—and whether they will recede from their position if their conclusions are falsified by a change in these conditions. A stable exchange can only be indicated by a stable equilibrium resulting from normal conditions prevailing in the internal or world prices.

A host of theorists were ready to prove the Smith Committee to be absolutely in the right in making their recommendations. But where are these recommendations and where are *now* these theorists ?

In India, the element of the bullish sentiment† would appear to derive implied sanction from the official policy and this combined with the process of deflation has carried the rupee beyond its pre-War gold parity.

What, however, is very important to note is that India stands absolutely alone in its currency unit commanding a premium—and this, too, of $12\frac{1}{2}$ per cent. —over its pre-War gold parity. Other nations financially and commercially stronger than India have been content to attain, or maintain their pre-War gold parity. India will be very unwise to adopt a different policy, especially after her experience of what followed from the recommendations of the Smith Committee.

4. A declaration of the policy of adhering to the pre-War gold parity need not mean an artificial interference with the market involving the "shepherding" back of the rupee from the present level of 1*s*. 6*d*. to the level of 1*s*. 4*d*. The only immediate step is to remove *any* artificial interference that may exist at present and provide natural conditions to enable the rupee to find its natural level.

In spite of the remedial measures adopted by the Government, the fundamental situation remains unaltered that at present there is nothing in the nature of an automatic system whereby the country can obtain currency when required. Nor does the cash balance with which the Imperial Bank commenced the present exporting season suggest an improvement upon the position of the preceding years as the following comparison will bring out.

The Cash Balance of the Imperial Bank in the last week of October :—

	Lakhs of Rupees.
1922-23	33,46
1923-24	36,34
1924-25	21,55
1925-26	24,96

In the able memorandum (July, 1924) submitted by the Committee of the Bengal Chamber of Commerce, two methods were mentioned by which provision for the expansion of currency was possible, one being the issue of what may be termed *ad hoc* Treasury Bills. An expansion of currency by means of these would involve what is commonly known as inflation in the worst meaning of the term and the Committee therefore did not recommend it. The other method was by the deposit of gold or sterling securities in the Paper Currency Reserve.

A singular objection, however, was raised by the Government of India to the latter method. "Your Committee suggest that this should be done by the

† Apart from a purely bullish sentiment there is such a thing as a psychological factor in exchange movements. The Financial Correspondent of the *Capital* thus commented (14th May 1925) :—

> "There are shrewd analysts who deduce from present conditions that the exchange banks are overbought,—an assumption as difficult to establish as it might be to rebut, inasmuch as a definite judgment upon so interesting a possibility would not only require a very precise definition of terms, but a closer dissection of bank operations than detached observers can hope to obtain. A comparison of bank calculations at the beginning of the present year as against the actual course of trade, would certainly afford interesting reading, but partially on that account, it is not likely to be forthcoming. Trade movements and prospects—in themselves difficult to estimate—are further complicated, especially in so abnormal a period as is now operative, by mental processes at the same time so obscure in their trend, and so important in their effects, as to make what may be called the 'psychological factor,' in exchange operations, often the decisive element in the situation. To take a concrete, though small, example. Bills paradoxically are generally most plentiful when rates show a tendency to rise. The reason is fairly clear. As long as rates are stable, or have a tendency to drop, bills are held back in the hope of better terms. Immediately a rise reveals this hope to be vain, there is a rush to effect transactions before rates show a further worsening. And the same alteration of hopes and fears is visible continuously throughout the whole range of exchange operations. A general apprehension that a particular situation in, say, exchange, is likely to develop will often produce so strong a reaction as to give exchange when the time comes, quite a different direction."
>
> "We may assume that the British Chancellor is counting very heavily on this psychological factor in relation, for instance, to the re-establishment of the pound. Much of the present strength of sterling undoubtedly derives from long-nourished expectations of State action, and had this not been forthcoming, it is fairly certain there would have been a prompt reaction. Confidence would have disappeared, and sterling would have slumped. Actually confidence has been further strengthened, and sterling continues to improve. One may calculate similarly that were the Government of India over its conviction that exchange would stabilise at 1*s*. 5*d*., there would, probably, be at once a movement *in that direction.* 'What may happen,' becomes, in such circumstances, almost as important as 'what *has* happened.' There is a constant effort to discount the future."

For this reason, I am obliged to call the implications of some pronouncements and acts of the Finance Member and the Government of India as unfortunate, in view of an unprejudiced examination of the currency situation by this Commission.

purchase of sterling at the market rate then ruling and the issue of currency against sterling so purchased. If literally interpreted and carried to its logical conclusion, this formula would have the result of driving the sterling value of the rupee continually downwards," the inference thus being that in the view of the Government the sterling value of the rupee must be maintained though the needs of the country in the way of currency might go unsatisfied.

This reveals a monetary policy, fundamentally unsound. The paramount consideration in issues of currency—in the words of the Committee—should be that the supply must be adequate to the requirements of the country.

The interests of a country cannot be sacrificed to a high exchange policy.

In so far as the present level of exchange is in pursuit of this policy, it is artificial and, I submit, in the interests of India, this policy should be reversed. It may mean that the rate of exchange may sag in consequence. But it is desirable that the rate of exchange should find its natural level, *whatever this might be.*

I am aware, a fall in exchange may mean difficulty in the budget for the Finance Department. But it is unsound finance to rely upon the benefit—always precarious—of an artificial rise in exchange. The Retrenchment Committee which advised the Government of India had suggested other remedies for attaining equilibrium between the revenue and expenditure. The normal means of balancing the budget is a reduction of expenditure.

But for the expectations of high exchange, which it would be impossible to deprecate in too strong terms, the alarming growth in the sterling expenditure since the war would have been impossible. This growth was regarded as being so serious that the Associated Chambers, which met in December, 1923, passed a resolution, " that in view of the onerous nature of the external compared with the internal debt, this Association requests the Government of India to restrict its external borrowing as far as possible." In this connection, attention may be drawn to the cautious and conservative policy in finance which obtained before the war.

The only sane monetary policy at present is that while adequate provision should be made for the expansion of currency in accordance with the legitimate requirements of the country, exchange should be allowed to find its natural level. The only modification that I would suggest in the proposal of the Committee of the Bengal Chamber is that currency should be issued against the deposit of *gold*, both in India and in London, at the actual gold import point at the market rate. This will have the very desirable result of attracting gold into the currency reserve from the large imports which have been a feature for the last three years. With a strengthened gold reserve, India will be in a stronger position to effect a transition to the full gold standard at the appropriate moment—this might be a year hence and at the most two years. With the further resources of the Gold Standard Reserve, India possibly may not have to ask for assistance in the shape of gold from the gold standard countries for effecting this transition. Again there is that other " secret " reserve in the Paper Currency Reserve where gold and other securities have been valued at the rate of Rs. 10.

5. The note issue should be transferred to the Imperial Bank of India. As to the terms of the transfer, the memorandum submitted by Mr. Keynes and published as an annexe to the Chamberlain Report may be taken as the basis for discussion.

It should be possible to arrange for the encashment of notes at all the branches of the Bank. This may mean in the beginning some sacrifice on the part of the Bank. But the Bank has been earning a very high dividend for a number of years and can afford to make the sacrifice in the general interests of the country. Possibly the increased income on account of the enlarged scope of the Bank may render such sacrifice unnecessary.

However, even if it is necessary, the sacrifice is worth while. It will bring convertibility near the door of the agriculturist and may materially affect the up-country circulation which at present is probably predominantly metallic. It will provide a real line of advance for attacking the hoarding habit. A bank-note is the forerunner of the banking habit.

On account of the wear and tear to which it is subjected in small retail transactions, a paper-note has to be renewed often. The cost of this renewal would make it questionable whether a small paper-note is really a cheap circulating medium. For small retail transactions, a metal coin has a distinct superiority over a paper substitute.

6. Mints should be open for the coinage of gold. The choice of the gold coin should be made after careful consideration of the denominations of the existing paper currency which will be ultimately convertible into gold.

The point to be borne in mind is that Rs. 10 and Rs. 100 notes are very popular. If these notes are made convertible into gold, there can be no doubt that their popularity will be increased considerably. The most suitable unit, therefore, would be the gold equivalent of Rs. 10.

With the effective establishment of a gold standard, the legal tender limit should be Rs. 50 for the silver rupee. With this limit, it should not be convertible into gold.

The 5-rupee notes should remain as at present with the Controller of Currency, being convertible into silver rupees, the rupee reserve for the purpose being under the Controller of Currency. These will be the rupee certificates that I have suggested.

7. Remittance operations should be entrusted to the Bank.

8. The attempt to introduce elasticity into the currency supply by the device of issuing notes against inland trade bills may be said to have succeeded and a cautious advance developing this useful measure will be advisable.

Hundis, bearing an endorsement by a bank, may be accepted as the basis for such issue.

It is well known that the periodical monetary stringency is due to the demands of the inland trade, especially with reference to the movement of crops. But unfortunately on account of the fact that bills are not the usual instruments by means of which this trade is financed, it has not been possible to arrange the supply of currency to meet the need for it exactly where it arises.

India, however, is not alone in this respect. In South Africa, for instance, recently the scope of operations of the Reserve Bank appears to have been widened, an aim of the Bank being to popularise the bill of exchange as an instrument of credit in the domestic trade in preference to the open account system, the other important object being to provide South Africa with an organised Money Market.

Fortunately in India, *Hundis* as instruments of credit, are familiar in indigenous banking circles, though their popularity would appear to be on the wane. Unless banks in India establish a point of contact with old banking methods, the real banking advance desired by all must be hindered. *Hundis*, after all, are familiar to the Indian mind and banks should show more adaptability by adopting these instruments themselves in the form in which they are familiar. An Indian peasant or sowcar may not understand a cheque or a bill, but he *does* understand a *Hundi*.

An energetic campaign to popularise bills and *Hundis* will be of great value, but the campaign must be led by the Imperial Bank.

There is another direction in which advance is possible and the possibilities of such advance may be explored though an immediate decision may not be feasible. I take it, the Imperial Bank will be a Bank of Issue. If this is so, it would be useful to enquire whether cash credit accounts cannot be utilised as the basis for issue of additional currency, as appears to have been the Scotch Banking practice with beneficial results to agriculture and industry. This might remove the difficulty of the paucity of bills for the purpose of issue of currency. A *very* cautious advance may be made, the agency of the Co-operative Credit Societies, or co-operative banks being utilised for the purpose. The educative value of such a measure, however small, for fostering the banking habit, may be very great.

9. If India decides for a gold standard, this question will not be urgent. The best rule is to buy silver in the most convenient market whether India or London.

APPENDIX 58.

Statement of evidence submitted by Mr. J. McK. Forrester, of Ure and Company, Exchange, Finance, Stock and Share Brokers, Rangoon.

We must recognise that Burma is primarily an exporting country, therefore a low exchange will suit Burma as it will also suit the exporters of Bombay and Calcutta. Therefore, any rate decided upon by the Commission must also apply to Burma.

We must also recognise (1) that pre-war figures as a basis of fixation carry very little weight owing to the tremendous development of India in the last 15 years, (2) that post-war figures are no better to go on owing to the colossal world speculation indulged in after the declaration of peace, the result of which is still felt in all the markets in the world, (3) that the world in general has not

yet sufficiently settled down to enable a definite opinion to be formed as regards the trend of Indian trade during the next 10 years, (4) that as the result of the premature (in my opinion) return to the gold standard trade and trade conditions have not improved in England, (5) India during the past five years has had on the average good monsoons. Consequently the balance of trade has been immensely in favour of India and exchange has risen from 1*s*. 4*d*. to its present level. Supposing a series of bad monsoons what would happen to exchange and how far would Government be prepared to support it at the rate which they may fix, (6) that as the result of trade conditions exchange has risen to its present level and might have gone higher but for Government's interference, (7) if Government have decided to fix exchange (although I think it premature to do so and later on will make an alternative suggestion) I consider that it should be fixed at or about the present level of exchange, for the following reasons :—

After making allowance for a number of bad monsoons it seems fairly obvious that the balance of trade will remain in favour of India for many years to come because of the large agricultural areas in India which have been made independent of the monsoon by irrigation, and because of the policy of protection embarked on in India which must continue and will undoubtedly lead to a restriction in the amount of foreign imports, and the investment of foreign capital in Indian industries.

Therefore while we may rely on a steady demand for India's products and raw material it cannot be assumed that there will be the same increase in foreign imports more particularly in view of the national movement in favour of home industries.

Under these conditions any material drop in exchange is unlikely and as prices for Indian products have adjusted themselves to the present level of exchange and prices for imported goods have also adjusted themselves to the same level, I think that if exchange must be fixed, although in my opinion the time has not yet arrived to do so, it should be fixed at 1*s*. 6*d*.

In stating so, I fully recognise the necessity in the interests of trade of a steady exchange. I think that no definite decision should be arrived at for one year pending a further settlement in the world's trade political and economic conditions. In the meantime, as an experiment and in order to steady exchange, Government should be authorised to extend its operations to forward commitments and should openly announce its intention to buy at T.T. 1*s*. 6$\frac{3}{16}$*d*. ready and forward as far as three months ahead.

As regards whether we should have a gold standard or a gold exchange standard I incline towards the latter as being less expensive and probably more elastic.

I am not in favour of a gold standard because :—

1. The cost of introducing a gold standard would be very heavy.
2. Of the difficulty of ensuring a sufficient and permanent supply of gold for all India's possible requirements in the future.
3. Of the loss to Government by selling silver currency and replacing it with gold.
4. Of the loss to the millions of poor people in India whose capital is hoarded in silver, by the depreciation in the white metal and the consequent decrease in its purchasing power.
5. The loss to merchants in China and trading with China would be enormous in the event of any collapse in the silver market brought on by heavy Indian sales.

Should the Commission decide on a gold standard I think that silver should only be sold in small amounts spread over a considerable period, say, five years. Gold for the initial stages might be provided out of the proceeds of a gold loan which could be floated in the U.S.A. for that purpose.

In the event of a gold standard being adopted I suggested the composition of the reserves as follows :—

1. Invested portion should be limited to 30 per cent. of gross circulation.
2. The investments should consist of half Government of India securities and half sterling securities.
3. When the Paper Currency Reserve is reconstituted the invested portion should consist of Government of India securities in order that sterling securities may be liquidated into gold.

4. Seasonal currency might be issued to the extent of 10 per cent. of the note circulation against inland or foreign bills of exchange with a usance of no more than three months. The balance of the note issue should be backed by gold.

In the event of a gold exchange standard being adopted I suggest that instead of the old obsolete method of issuing Councils in London, buying or selling of sterling in India by the Government should be adopted, for the reasons that by far the greater part of India's trade emanates from India, rates of exchange are fixed in India, and a reversal to the old method of issuing Councils in London would not be in keeping with India's present day requirements.

As the scope of enquiry covers local currency questions and as it is suggested that the Imperial Bank should take over the Paper Currency Department I am in favour of the Imperial Bank taking over the management of the currency if in addition to their present responsibilities they are in a position to do so and to run the Currency Department on up-to-date lines.

I am not in a position to give an opinion regarding the probable import and consumption of the precious metals during the next few years. I think that consumption of late has increased because of uncertainty of exchange (both gold and silver having become popular gambling counters in India), increase in India's wealth and the old idea that the sovereign is still worth Rs.15 and can be purchased for Rs. 13.10.0 or thereabouts.

I am of the opinion that all purchases and sales of bullion should be made through brokers in India.

As regards Burma's particular requirements as previously stated Burma is primarily a large exporting country but being a province of India any alteration in India's currency must apply to Burma.

There are, however, one or two important points to be considered from Burma's point of view.

I consider that Burma as a great shipping centre should be in the same position as Calcutta, Bombay, or Karachi in obtaining funds from Government. Presumably when the rupee is stabilised, and if a gold exchange standard is adopted, Government will either offer Councils in London or buy sterling in India when and as required. As previously stated I am against a return to the old Council "once a week" system as being out of date.

All sterling purchases or sales should be made in India and Burma in the open market to approved banks or merchants for amounts of not less than £50,000. At present Government purchase sterling from time to time in Calcutta, Bombay and Karachi only, but Rangoon has to apply to India for funds and has to pay the Imperial Bank $\frac{1}{16}$ per cent. for transferring these funds to Rangoon. It stands to reason, therefore, that Rangoon exporters cannot obtain the same price for their bills as Indian exporters obtain in India.

I suggest that Government should buy in Rangoon as in India. This might entail a certain loss of revenue to the Imperial Bank who, however, in my opinion would be amply compensated for any such loss by the amount of free money which they hold on account of banks and Government on which they pay no interest. If the old Council system is revived, Rangoon during the busy season will have to apply to London for allotment, may in due course after several days receive payment in India, and will then have the funds transferred to Rangoon at a cost of $\frac{1}{16}$ per cent.

Surely, apart from the loss in exchange, the delay involved makes many financial operations impossible. The same reasoning applies to local borrowing If the banks during the busy season are unable to at once obtain funds for immediate financial purposes and have to pay $\frac{1}{16}$ per cent. to obtain same from India it stands to reason that the elasticity of our local money market will be affected.

I think the abolition of the Re.1 note a mistake, both from the point of view of trade and also because a paper currency is less expensive than a metallic currency.

I think that notes of all denominations should be of a standard size.

APPENDIX 59.

Statement of evidence submitted by Mr. C. R. Chitnis, B. Com. (Lond.), B.A., B.Sc. (Bom.), of Delhi.

A.

I have the honour to submit the following views of mine on the subject of Indian Currency and Exchange for the consideration of the Royal Commission recently appointed for the purpose. I am giving same in the form of a draft scheme with few preliminary remarks and necessary explanation. The scheme given here for the reform of Currency in India, however, is in its broad outlines only; the details will have to be necessarily adjusted on the consideration of facts which I cannot possibly have fully before me and especially in the light of the immense material that will be brought before the Commission by the various different interests affected.

The terms of reference to the Commission are sufficiently wide and general in scope so as to allow of a satisfactory solution of the Indian problem, and even of quite radical changes in the currency system, if it be so necessary. I am proposing for a gold standard for India, or rather for that kind of a modified gold standard which at present exists in England, and which seems to be popular also in other parts of the world. I am not one of those who are thrilled by the touch of gold or who feel a peculiar pleasure in handling gold coins; neither do I believe that gold is a perfect standard of value. There seems to be some measure of uncertainty attached to the future value of gold; but I think this should not worry us, especially as a large and important part of the world has (or has now returned to), a gold standard in one form or another. It is not so much the absolute change in the value of gold, or a rise or fall in the general level of prices all over the world at once, but a relative change in the value of gold (as between two countries or with reference to a particular country), *i.e.*, a rise or fall in the general level of prices in one country relative to that in some other country, that is troublesome and that is a matter of anxiety to the trade and industry of a country and as such to the Government of the country concerned. The other alternative worth considering is the acceptance by us of some such scheme of "managed currency" as Mr. Keynes would propose, but I have my serious doubts as to the practicability of any such scheme, especially in a country like India. However, I agree with Mr. Keynes and strongly emphasise the importance of the stability of the internal price-level. Internal price-level is a complex thing; and monetary factor is only one of the several factors operating. It, however, being an important factor involved, I think, the Government, the financial authorities here, should be comparatively free, within certain limits, free to pursue a currency policy of their own best suited to the needs of the country and calculated to promote the best interests of the community at large. It is the authorities here that will be faced with all sorts of complex administrative problems, and problems of taxation in order to be able to meet the internal expenditure here, as well as the expenditure abroad. The difficulties are enhanced owing to the absence of a Central Banking Institution following a consistent and appropriate credit policy such as will be instrumental in producing the desired effect on the price-level, production, savings and accumulation of capital, etc. The Internal price-level is a thing deserving the closest attention from and utmost care of the Government and of the Central Banking institution. Under the pre-war system, described as the Gold-exchange standard system, the currency policy or price-policy pursued for internal purposes here was bound to come into conflict with the exchange policy pursued for purposes abroad, the stability in the internal price-level having been sacrificed to the stability in the exchanges. In my opinion the pre-war system was definitely inflationary in its ultimate effects, besides creating fluctuations in the internal price-level. If there was a heavy "balance of trade" in favour of India, the drawback was of providing enough rupees without having undesirable effects on the price-level. The rise in prices could not fail to have bad effects on trade and industry in so far as the cost of production was increased, but distress would be chiefly inflicted on fixed income and salaried classes, and also savings would be checked. Under the abnormal circumstances of the war rupees could not be provided in sufficient quantities, and the system broke down on that account. On the other hand, in case the balance turned against India, the ability of the Government to maintain the exchange rate stable was dependent on how large the gold resources at its disposal were. Bad years in succession would sufficiently strain the resources as to cause an ultimate breakdown of the system; and recourse would be necessary to increased taxation at a very undesirable time. It must be carefully remembered that it is very necessary for India to export more

than she imports in order to be able to meet the "home charges," etc., and thus liquidate her indebtedness abroad—(if very heavy taxation is to be avoided). From the discussion given above it would be seen incidentally that the general trend of the result of the working of the pre-war system was to benefit the exporting interests at the expense of the community in general, and that although the external value of the rupee was stabilised at 1*s.* 4*d.* and maintained stable at that ratio, the internal value of the rupee kept on fluctuating to a degree, great or small, with all the consequences of such fluctuations to that extent.

Now it is not quite necessary to have gold coins actually in circulation in order that we may have a gold standard. (In my opinion, however, in order to have an effective gold standard people must be given the option of circulating gold coins if they so elect. They may choose to do so, or may make their payments by means of notes or cheques for reasons of convenience or for any other reasons; but they must have the full freedom to do what they like, convertibility into gold on demand, melting and export being allowed. But in India at any rate during the period of transition—and for ever as I should very much like—it could be arranged in the following way):

The rupee should be stabilised at 1*s.* 6*d.* (gold) for reasons stated below. There should be an imaginary ten-rupee gold coin, that is, a gold coin, if it were a real one, containing a weight of fine gold worth at present ten silver rupees, the rupee being stabilised at 1*s.* 6*d.* The gold coin would contain very nearly a weight of gold that could be bought in the market for a ten-rupee note. There should be a fictitious half-gold-rupee coin on the same basis exactly; this would contain, if it were also a real coin, gold of the value of five silver rupees, or such a weight of fine gold that could be bought for a five-rupee note. Thus a ten-rupee note (or ten silver rupees) and a five-rupee note (or five silver rupees) would be equivalent to the new gold rupee and half rupee respectively, the rupee being stabilised at the ratio of 1*s.* 6*d.* (gold). The rupee should be limited legal tender up to five rupees. I do not think, considering the average rates of wages paid, scales of retail prices, the habits of the people, etc., this would cause any inconvenience. The five-rupee, ten-rupee notes, and notes of higher denomination should be unlimited legal tender up to any amount. The rupee was never convertible into gold on demand, except at the convenience of the Government. It remains so under this scheme also. The notes of five, ten rupees, etc., should be theoretically convertible into gold, practically not, except after the period of transition and when thought desirable and convenient or practicable by the Government after the accumulation of sufficient gold reserves to enable it to introduce gold currency in circulation actually. Even then use of gold could be economised in this way: if a five-rupee note is presented, it could be paid out in five-silver-rupee coins or in one half-gold-rupee coin; similarly a note of ten rupees could be paid out in one gold-rupee coin, or in one half-gold-rupee coin and five-silver-rupee coins. Thus silver rupees could be pushed back into circulation and maintained there steady. I think, considering the average income of the majority of the people, the standard of living, etc., the silver rupee will remain as popular as before; the necessity or desire for small change will be there always, any gold coins being of much too high a denomination for many practical purposes. The gold coins or corresponding notes will have a limited circulation, the circulation depending upon and increasing with the wealth, standard of comfort, etc., of the people—(allowance being made for change in habits, such as more frequent or constant use of cheques). As between notes and gold coins how far preference will be shown by the people for one or the other is a practical problem to be considered when the decision to introduce gold currency actually in circulation and to end the period of transition is to be taken, and no such decision should be taken unless sufficient gold reserves are accumulated (and unless trial experiments are made previously such as those that are made when introducing a new coinage with a view to test how far these would be taken up by the public and absorbed into circulation). Sovereigns and half-sovereigns should cease to be unlimited legal tender and should be taken out of the Indian currency system altogether, since the issue of these could not possibly be fully controlled by the authorities here. A sound currency system should not contain in it any constituent, the issues of which cannot be completely controlled or regulated by the authorities responsible for the working of the system as a whole. With rupee as unlimited legal tender sovereigns will never circulate in India on the basis of a fixed price for the simple reason that, if more gold could be obtained for the price in rupees fixed for a sovereign than is contained in the sovereign, sovereigns will be returned to the Treasury ultimately; if less gold could be obtained, sovereigns will be demanded in exchange for rupees, and it will be impossible for the Treasury to meet the demand. Thus the Treasury will be

at times flooded with gold, and at other times drained of all its gold. The unit of account under this scheme remains unchanged; it is the silver rupee as before (not exactly the present silver rupee, but the same stabilised at 1*s*. 6*d*. and maintained for all purposes, external and internal, at exactly one-tenth value of the new gold rupee by the proper limitation of the quantity, etc.). The rupee will remain a token coin (except under one circumstance when the price of silver rises sufficiently high so as to make the bullion value of the rupee equal to or greater than its nominal exchange value); and although it will now be relegated to the position of a true subsidiary coin (being also made limited legal tender), it will still remain a principal coin in circulation and be as popular as before for reasons stated above. Rupee notes and 2½-rupee notes that may be still in circulation should be made also limited legal tender up to five rupees. The quantities of the several constituent elements in the system should be so adjusted between themselves and regulated from time to time that over—or under—valuation of any particular constituent will not be possible or will not exist at any time. Internal parity must be carefully maintained; necessary steps should always be taken as now for the preservation of the same.

Export and import of gold should be freely allowed. Gold should be made available for export for trade purposes in bars of 400 ounces each as is the case in England at present. This could be undertaken as soon as sufficient gold reserves exist here, and at an earlier date than may be possible in case of the decision in introduce gold currency in circulation. To accumulate the necessary gold reserves as a first step all the gold resources at the disposal of the Government of India should be mobilised. In the gold standard reserve located in England there are forty million pounds sterling worth of securities. Perhaps these could be deposited with the Federal Reserve Board of America, and some of their surplus gold of the corresponding value approximately could be shipped to India. These securities should be retired annually by arrangement or according to an agreement entered into between the United States Government, the British Government, and the Indian Government. It may be possible to arrange the necessary details as between the three Governments concerned to the satisfaction of all the parties. The profits on rupee-coinage should be also utilised for the purpose of increasing the gold reserve and strengthening it. I have said above that the notes should be convertible into gold on demand as much as they are at present in England. It may be possible later on to make them really convertible into gold on demand, especially if a decision to introduce gold into circulation is taken, whenever it may be done in future if at all.

The Imperial Bank of India should be converted into a true Central Bank and should be brought under stricter and complete Government (public) control. It should act as a Central Reserve authority, and power to issue notes should be given to it. (Constitution of the Bank may be required to be changed.) There should be a fixed fiduciary issue, the limit to which being dictated by past experience. Every note in excess of this should be fully backed by gold or in part by silver (only to the extent to which rupees could be pushed into circulation as stated above). The silver portion should not be increased too much, *i.e.*, to the maximum limit possible as above; and nothing should be done to endanger the gold value of the rupee when once stabilised at 1*s*. 6*d*.; there is a limit to the absorption of silver rupees into circulation. The notes should be a first charge on all the assets of the Bank, while remaining a charge on the revenues of India as now. The nature of the notes need not be changed; only they may be countersigned by the bank. The government in any country remains ultimately liable on the note-issue; however, as far as possible the responsibility should be pinned down on the actual note-issuing authority, whatever may be the liability of the Government in the last resort. Elasticity in the note-issue may be secured by giving permission to the bank to issue a certain number of notes (maximum limit to be fixed) against 1st class trade bills or bills of exchange. (Present limit is of 5 crores). Further emergency issue may be made possible by allowing the bank to issue notes by paying a tax of 5 or 6 per cent. (graded further up if necessary) to the Government on its uncovered excess issue. Of course, it will be necessary to carefully reconsider the position of the bank as regards the reserve requirements against total liabilities, the cash reserves against demand liabilities, etc., and in view of the circumstance that the power to issue notes may be transferred to the bank, the management of the bank should be brought under stringent public control. The Exchange-banks, the Indian Joint-stock banks, etc., should be allowed facilities of rediscounting with the Imperial Bank of India certain classes of approved paper; and also arrangements should be made for effective

transfer of funds as between the three Head Offices of the Bank and as between different centres in times of stringency. The bank should be required to give the necessary rediscount facilities, and it should be placed in such a position in other ways that it will be able to follow a consistent and appropriate discount rate policy and that its discount rate will be effective in the money market. In times of stringency the money market should be placed in a position of confidence that the assured support when necessary will be given to it by the bank, so as to avoid any unnecessary crises or violent disturbances in the money market. Of course, when such rediscount facilities are made available, the position of all these banks in respect of adequate reserve requirements against demand liabilities, proportion of cash balances usually held to liabilities, etc., should be carefully considered.

Now as regards the rate of exchange between England and India this will be determined in the same way as between any two gold standard countries by the conditions of trade, etc., the fluctuations being corrected by the necessary gold movements to and fro between the two countries. Now these gold movements could be minimised in the following way: India has to make certain payments abroad, meet the "home charges" every year, etc. It must be carefully remembered in this connection that it is the financial authorities here that have to find the money ultimately whether to meet the home charges abroad or the internal expenditure of the Government here. The Secretary of State should, therefore, hold in England in advance cash balances enough to meet the current year's expenditure (which could be estimated), allowing for an ample margin; and while he is doing so the cash balances should be replenished in advance to meet the next year's expenditure; and this could be done in two ways: (i) the Government should purchase sterling in India, or rather instruct the bank to purchase sterling on its behalf (ii) the Government here should send cable instructions to the Secretary of State to sell drafts (Council Bills)—demand drafts or telegraphic transfers—on India at the particular times stated and to the extent of the particular amounts stated. These transactions could be conveniently carried out through the bank; and past experience (as well as the monetary and general situation of the moment) will be able to indicate the most favourable times to do so. So long as the Secretary of State is kept in funds in advance, it does not matter exactly what times of the current year the cash balances to be required for the expenses of the next year are replenished; and in this way it would be possible to minimise the gold movements. Similarly purchase of silver in the London market for purposes of coinage of rupees and small change in India, purchase of stores in England required for Government purposes in India and payment for all these, if possible, should be so adjusted during the course of the whole year that unnecessary gold movements could be avoided. Unnecessary governmental interference in the matter of exchange should be avoided, advice of the bank should be taken from time to time—(all money transactions being carried out through its agency)—its convenience as well as the convenience of the Government should be consulted, so that, in brief, the exchange will be left as free as possible and to the free play of all the several different forces acting. I think the exchange rate will remain stable on the whole within certain limits—within the gold points—in case unrestricted export and import of gold is freely allowed.

The point at which the rupee should be stabilised is a controversial question. I have proposed to stabilise it at 1*s*. 6*d*. (gold); the rupee has been stable round about 1*s*. 6*d*. for quite some time past. To change the ratio to 1*s*. 4*d*. or to any other ratio would mean that the settled expectations and anticipations of the people would be upset and the economic life of the community disturbed to that extent. To lower the ratio down to 1*s*. 4*d*. no doubt will be beneficial to the export trade; but I doubt as to how far it will really be a stimulus to industry and agriculture. What I am afraid of is a little more inflation and the consequent rise of prices. The salaried and fixed income classes will suffer on this account, savings will be checked, or will be smaller. The expenditure of the Government may increase, and higher or increased taxation may be necessary. The cost of production in case of manufacture may increase in so far as the prices of raw materials used, of imported machinery, etc., may increase. In the case of agriculture the rise in prices for its produce may be regarded as a stimulus in some way, but it may be doubted how far the benefit will go to the actual cultivator himself in the shape of risen prices, and how far any such benefit accruing from increased prices will not be pocketed by the middleman. Inside a community there are always groups whose interests are conflicting among

themselves, although broadly the interests of the community as a whole may not appear to be so divided. A balance has to be sought for; and whatever policy is adopted it is not possible to please all the sections of the community at one and the same time.

It will be seen from what I have stated above that under this scheme no revolutionary changes or alterations are to take place in the coinage, currency-notes, etc.—although the basis of the currency system as a whole will be changed. It will be a true gold exchange standard system for all purposes, internal and external), or a gold standard system without gold currency in circulation. It could become, if considered desirable, a gold standard system with gold coins actually in circulation. It is hoped, however, that prices (internal) will remain more stable under the working of the new system as proposed here than was possible under the old.

B.

It is always difficult to answer a question like this; for a tolerably good case could be made out either way, for or against. Ultimately it becomes more or less a question of the expression of one's own personal opinion. Everyone is aware of the circumstances under which the mints were closed here to the unrestricted coinage of silver in 1893. The Fowler Committee of 1898 had to make its recommendations under conditions which could not be then regarded as quite stable; subsequently certain administrative practices were developed and given effect to, and thus the gold exchange standard system was evolved: the external value of the rupee was maintained stable at 1*s*. 4*d*., or at the ratio of fifteen rupees to the pound sterling. The stability in the foreign exchanges had no doubt certain good results; but there were limitations also set in practice to the ability of the authorities to maintain the exchange rates so stable. The Chamberlain Commission of 1913-14 had its terms of reference rather restricted in scope; so were practically the terms of reference to the Babington-Smith Committee of 1919-20. The crisis of 1907 (following upon the American crisis of that year) brought to light the limitations in one direction to the conditions under which the gold-exchange standard system could be worked successfully, while the abnormal circumstances of the war showed the limitations in the other direction. This brief history will indicate that the problem of Indian Currency and Exchange is still awaiting a satisfactory and final solution—final in so far as there is a finality with regard to such matters. There seems to be an intense popular demand for such a solution of the problem. The unstable conditions following upon the Great World War cannot be said to have wholly disappeared; however, one country after another has tried to solve its currency problems more or less in a satisfactory way, and has achieved a certain measure of success. Especially as England has now returned to the gold standard in April last, there seems to be no reason why a solution of the problem in this country should not be attempted. Nothing in my opinion is more unsettling to the trade and industry as well as to the national finance of a country or more harmful to its credit than the uncertainty attached to or in regard to its currency and exchange matters.

We cannot take the rupee out of the Indian currency system altogether, and think of substituting something else for it, whether there is any gold currency actually in circulation or not. A gold coin of a satisfactory and not too small a size will be of much too high a denomination to be of use for many practical purposes, considering the average income, standard of comfort, etc., of the majority of the people; besides, the necessity or desire for small change will be there always; and under the circumstances of India the rupee will tend to be not merely the small change, but the principal coin in circulation. Adoption of a silver standard is out of the question; similarly I consider a scheme for "managed currency" as impracticable in India. I do not also approve of a scheme for an inconvertible rupee of which the issue may be fixed. If the rupee is to be stabilised in relation to gold, it could be stabilised for external purposes only as under the pre-war gold exchange standard system, or it could be so stabilised for all purposes—external and internal. In the latter case a true gold exchange standard system could be evolved—in which the actual currency in circulation is something other than gold, *i.e.*, silver or paper, or both, but it is definitely related to gold at a certain ratio which is maintained effective. This last could become a true gold standard system as soon as gold currency is introduced into circulation, and convertibility into gold on demand is made practically possible ; and it remains so even when no gold is in actual circulation, while people continue to possess the choice of having so, and further possess the rights of convertibility, melting, export, etc.

Stability in internal prices does not mean that all prices remain stable at all times or remain the same over a period of time. Of course, the individual prices of commodities (and services) keep on fluctuating within certain limits, both at a point of time and over a period of time. However, the general price-level broadly or the value of money does not fluctuate violently, that is, remains comparatively stable ; and whatever rise or fall is there in case of particular commodities, the monetary factor is as a rule least to blame. When prices rise or fall, within a community certain classes benefit at the expense of others, while others are losing and *vise versa* ; and thus a certain measure of injustice is done.

Stability in Foreign Exchanges is no doubt beneficial to the foreign trade of a country and thus brings with it certain advantages as a result. In so far as, however, such a stability is bought at the expense of fluctuations in the internal price-level, all the consequences of a fluctuating internal price-level arise. Comparative Stability in the Foreign Exchanges, as well as in the internal price-level, are not two incompatible things. However, I think stability in internal prices is the more important of the two, because in the long run the ability of a country to export and thus pay for its imports or otherwise liquidate her indebtedness abroad depends ultimately upon how best her internal conditions are adjusted, such as production, distribution, consumption, etc. Such a price-level must be maintained inside the country that it will be to the interest of foreigners to buy from that country. (There must be, therefore, freedom to pursue a price-policy, in other words, a currency policy as required.) It must not be understood that the foreign exchanges are to be left absolutely to themselves and are a matter of no care from the Government of the country. But I think, provided the internal price-level is well taken care of, the foreign exchanges will be a matter of less anxiety and will greatly take care of themselves, requiring special attention only at special times.

When prices rise (or the value of rupee falls) all those whose (money) incomes are fixed, (or do not increase in proportion to the increase in prices), lose, while the industrial, business community gain from the rise in prices. Under the classes that lose may be mentioned salaried persons, government servants, wage-earners in so far as their wages lag behind the rise in prices, holders of fixed interest bearing securities, etc. Expenditure of Government may increase, and higher taxation may be necessary. Savings are smaller or may be checked ; accumulation of capital suffers ; investing classes lose as above ; and all these things ultimately have undesirable effects on, or affect adversely, the industry, trade, etc., especially the further industrial development, new capital ventures, etc., and in the long run the country's productivity may be impaired—(at least temporarily). In so far as higher prices are obtained for the produce of agriculture, or industry, it may be regarded as a stimulus, but one cannot estimate how far the efficiency will be increased, or provision may be made by way of reserves against bad times, or how far the lot of wage-earners may be improved—(higher wages may be given to them and maintenance of a higher standard of living, or at least of the present one, made possible—), or in case of agriculture how far the cultivator or the peasant himself will benefit from the rise in prices ; it is doubtful how far the benefit will really go to him and how far it will not be pocketed by the middleman. In so far as the cost of production is increased, manufacturers will go on charging higher prices as far as they can; ultimately they will begin to complain of the increasing foreign competition. (Some businesses will no doubt be wiser and from a long point of view will pursue a policy of increasing the efficiency and increasing the reserves, etc., charging of steadier prices to the consumer being thus made possible.) The effect of falling prices, (or a rise in the value of rupee), will be opposite to that described above. What is really disturbing to the trade, industry (including agriculture), as well as to the national finance, is the rising or falling rupee when one does not know exactly how far it will rise or fall, and where and when such a rise or fall will stop. Hence I have emphasized the importance of a stable internal price-level. Whether rupee is stabilised high or low, provided it remains stable there, economic and other conditions will have soon adjusted to it. It is when a change from high to low, (or low to high), rupee is desired that the consequences will have to be considered. If, for instance, the rupee, which is stable round about 1*s*. 6*d*. for some time past, is to be made stable say at 1*s*. 4*d*., the pre-war ratio, what I am afraid of is a little more inflation and consequent rise in prices. Exporters will gain, but importers will lose, and all the effects of rising prices will manifest themselves,—until economic conditions have adjusted themselves to the new ratio.

II. Gold should be adopted as a standard of value in India, and rupee should be stabilised in relation to that. I have proposed the ratio of 1*s*. 6*d*. (gold)

at which the rupee should be stabilised. Of course, under the working of the system I have proposed the rupee will be slightly fluctuating round about this ratio within certain limits. The system proposed by me slightly differs from the pre-war system, and therefore, the working of the system in all its details will take some time to begin—until the necessary gold reserves are accumulated in India, etc. In other respects the working of the system could begin straightaway.

III. The rate selected by me for the stabilisation of the rupee does not materially differ from the present one; and therefore, there is hardly any transition to be achieved. However, under my scheme certain changes are made in the system in force before the war involving a period of transition.

IV. I have proposed in the statement already made for a Gold standard system for India, or rather for a true gold exchange standard system. The system in force before the war has been so modified that, to start with any way, no big and visible changes are to take place ; but at the same time an early introduction of a gold standard, (with or without gold currency), has been made possible. As soon as sufficient gold reserves are accumulated, the system proposed under my scheme can straightaway become the kind of modified gold standard as at present exists in England. It can further become a true gold standard with gold currency in circulation,—if considered so desirable, or convenient. I have proposed for an imaginary gold coin worth ten silver rupees, and one worth five silver rupees. The quantity of the silver rupees in circulation is to be so adjusted as to make the rupee stable at 1*s.* 6*d.* when once stabilised at that rate. All the accepted rules and practices should be carefully observed with a view to effectively maintain the internal parity as between the various component parts of the currency system. The currency (and Exchange) policy, as well as the credit policy, should be so followed as not to lead to any appreciation or depreciation of the rupee in terms of gold. I have, therefore, proposed for a true Central Bank which will function in the desired way in close touch with and under strict control of the Treasury here,—so as to make the Bank and the Financial authorities in India fully responsible for the working of the system. The gold standard reserve will merge into and become a part of the Central Reserve which is to be accumulated in India. The Bank will, of course, have to keep reasonable reserves against demand liabilities ; and there will also be the reserve against note-issue (—backing for the notes issued—). The central reserve will consist in part only of silver (coined or uncoined), and the rest of it will be in gold. Part of this reserve may be conveniently kept at the three Head offices of the Bank ready for shipment abroad in case of necessity, and the rest may be kept at a convenient central place, from which it could be transferred to any part of India in case of emergency. The central reserve will be thus wholly located in India. No part of this central reserve is to be invested in securities; it must be in gold, and in silver to a limited extent only. The fact should never be forgotten that it is a reserve and created for certain definite purposes only; and it must be available as such any time if required. As to the size no definite limit should be decided on just at the moment. When the gold resources at the disposal of the Government are mobilised in the shape of a reserve, and sufficient additions are made to it so as to form a respectable central reserve (say of £100 million sterling), the decision should be taken to have a gold standard in India like the one at present existing in England. Larger reserves will be necessary when gold is to be introduced into circulation, if at all. (Re-discount facilities should be given, and other facilities also to make the effective transfer of funds from one centre to another according to necessity. "Open market operations" policy, as in America, may be followed—to make the discount-rate of the Bank otherwise effective ;—also funds may be transferred in this way.)

V. The Imperial Bank of India,* if it is to become a true Central Bank at all, should be given the power to issue notes. I have proposed for a fixed fiduciary issue ; and the rest of the notes should be fully backed by gold—(and to a limited extent only by silver). The arrangements should be thus automatic as far as possible. But the Treasury here in the public interests should have the power of requiring the Bank not to issue notes against gold, although accumulated in its vaults,—making it possible to effectively lock up gold, thus avoiding unnecessary increases in circulation and consequent rise in prices, etc. (The budget arrangements will not be upset accidentally in this way). Of

* The constitution of the Bank will have to be altered so that it may command the confidence of the people and the Government.

course, the Bank and the Treasury will be in close touch with each other, and will know when such a policy is necessary and is to be followed, and when it is to end. The gold thus locked up should not be made available as a reserve against the demand liabilities of the Bank, so that credit inflation by the Bank will be effectively checked. (The Bank will have the alternative, as below, of paying the tax to the Government to increase its note issue. Ultimately it will have to raise its discount rate ; and the Treasury can then decide how far industry, trade, etc., would suffer, how far it is in the public and general interests to continue to pursue the policy of locking up gold, and so on). Rigid control should always be avoided.

A limited number of notes may be issued against trade bills, bills of exchange, hundis, etc.—and further emergency issue may be made possible by allowing the bank to issue notes on payment of a tax of 5 or 6 per cent. on its uncovered excess issue. Details could be arranged as to the division of profits between the Government and the Bank arising from the note issue thus transferred to the Bank. The bank should carry out certain services for the Government free of charge, etc. Public deposits should continue to be kept with the Bank as now. The independent Treasury system should be altogether abolished, —the Bank being asked to open a small branch office in their place, wherever these may be existing to date. The Bank should later on be required to make an advance of a reasonable sum or sums to the Government free of interest ; and this should be utilised by the Government for the establishment of agricultural banks, co-operative central banks, and industrial banks, thus greatly helping towards the agricultural and industrial development of India. (The advance should not be spent directly as such—but only through the agency of the banks so established;—the machinery thus set up should be mainly fed on private support;—the Government only taking up the initiative and starting the institutions and the public later on supporting them and taking full advantage of the facilities so created).

Under my scheme the notes become inconvertible so far as convertibility into silver rupees is concerned. (The rupee being a token coin, convertibility into rupees hardly means anything at all). But the fact of inconvertibility need not be made public until it may be possible for the Government to introduce gold currency into circulation, and until convertibility into gold on demand could thus be undertaken. Even then it will be absurd for a bank to refuse to give silver rupees for notes in case one wants the small change for paying wages, or for any other purpose ; besides five rupee notes will be convertible into silver or gold, and ten rupee notes partly into gold and partly into silver, as already explained. It would be easier to attain the kind of gold standard as at present exists in England—;and in that case the notes may remain convertible as now—if that is any satisfaction to the uneducated public ;—gold being made available for export, etc., in bars of 400 ounces or so. By limitation of quantity, etc., if the rupee is effectively maintained stable at 1*s.* 6*d.* (gold),—this fact would give much confidence, and would make it easy to introduce gold into circulation later on if desired.

The rupee and 2½ rupee notes are, I believe, being withdrawn from circulation. If the public takes them, there is no harm in having a limited number in circulation—(fully backed by silver—if not a part of the fixed fiduciary issue etc.). They are to be also limited legal tender as the rupee is.

VI. If gold is to be minted in India at all, ten-rupee and five-rupee gold coins should be minted, whenever decision to introduce gold currency is to be taken. Personally I consider it unnecessary to have gold in circulation, provided gold is made freely available for export in bars of 400 ounces or so. Convertibility of rupees into gold on demand depends upon whether any gold coins are introduced into circulation or not ; and it cannot be undertaken unless and until sufficient gold reserves are accumulated.

VII. All the remittance operations of the Government should be conducted through the agency of and be managed by the Bank. I have mentioned already, how sterling should be purchased in India, how drafts on India should be sold in England,—all transactions being managed by the Bank for the Government and under their strict instructions. Purchase of Government stores, etc., and payment for same, if possible, should also be so managed that the gold movements are minimised.

VIII. To meet the seasonal demands for Currency I have already said that a limited number of notes should be issued against bills of exchange—hundis and other trade bills, etc. The paper eligible for re-discount purposes should be the

kind of paper which can be also accepted for the issue of notes against. Emergency issue of notes may be made possible by allowing the Bank to issue notes on payment of a tax of 5 or 6 per cent. (further graded upwards—if necessary) to the Government on its uncovered excess issue ; it will be found convenient by the Bank to accept as collateral such paper as may be eligible for re-discount purposes,—while giving advances in the form of the notes so issued—(or rather notes may be required to be issued to meet the credit given in case any of the cheques drawn against are actually cashed). The Bank should adopt a consistent and appropriate discount rate policy, pursue, if necessary, a policy of "open market operations," or in any other way give facilities for the transfer of funds from one centre to another, or one part of the country to another. This would enable the Bank to earn highest profits by employing or investing its funds into something yielding best returns ; the money market, the general business, commercial, industrial community, as well as the public at large, would also be benefited. Steadier rates would prevail, the bank would be best able to meet its responsibilities in various other directions—(encashment of notes, buying and selling, export and import of gold, etc.), and as the public's confidence is increased banking habits, payments by cheques, etc., would develop more quickly and with distinct advantages to all.

IX. The purchase of silver should be carried out through the Bank, naturally under Government instructions, the mint being supplied with the necessary raw material according to requirements. Advantage of the purchase of silver in the London and other foreign markets (America) should be taken for the purposes of minimising gold movements and stabilising the exchange-rates (*i.e.*, effectively maintaining the value of rupee at 1*s*. 6*d*. (gold) when once for all stabilised at that point).

APPENDIX 60.

Statement of evidence submitted by the Honourable Mr. Phiroze C. Sethna of Bombay.

With reference to your memorandum I desire to offer the following observations :—

The time is certainly ripe for solution of the problems of Indian Currency and Exchange. In fact it has been overdue. We badly need a gold standard and gold currency. Steps should be taken to gradually demonitise the Rupee so that say within 10 years at the longest we have a full fledged gold standard in operation with the Rupee recognised as legal tender for only a small amount.

The legal ratio of the Rupee and any gold coin which may be adopted for use in this country will have to be fixed for internal purposes. I would suggest that the new gold coin be called the Gold Mohur and it be of the same size and fineness as the sovereign and the rate of the Rupee be one-fifteenth of such Gold Mohur, which will be the same ratio as formerly.

Constant fluctuation in Exchange has certainly done much damage to agricultural as well as industrial interests in the country and this state of affairs requires to be remedied as early as possible. Fluctuations in price affect trade conditions seriously and retard the progress of industries so necessary for India.

In reply to the question of the gold exchange standard system which was in force before the war be continued I would say that Indian opinion is very strongly against the gold exchange standard. What we want is a gold standard and nothing else.

As to the gold standard reserve the country insists on its being maintained in gold and that such reserve be kept entirely in this country and not in London as at present.

It ought not to be the business of the Finance Department of the Government of India to be in charge of the note issue. This is within the proper province of a Central Bank of issue and in the absence of such Central Bank I believe the Imperial Bank of India will be able to manage the note issue far better than the Government who certainly should divest themselves of this work.

For the encashment of notes every possible facility should be given to the public. The fact that of late, notes of Rs. 100 and under are cashed at any centre has greatly popularised notes of these denominations. The same ought to be done in regard to notes of higher denominations.

Personally I am strongly in favour of once again introducing one-Rupee notes. I would not favour notes for Rs. 2-8-0 and the next higher denomination should be Rupees five. The one-Rupee note which when first issued was not much liked, subsequently became quite popular. In other countries where there is gold currency the unit such as the Dollar or the Yen is in paper notes and the one-Rupee note in India will prove equally useful.

With regard to the question as to the policy of minting gold in India, the opinion in the country is strongly in favour of a gold mint for India and the gold being coined here for currency.

Remittance operations which are carried out at present by Government should hereafter be carried out by the Imperial Bank of India and Government divest themselves of all operations of a banking nature.

For meeting seasonal demands for currency, Government should provide sufficient currency to prevent undue stringency which has been so marked during the last several busy seasons.

If we have a gold standard and a gold currency adopted then it will not become necessary to make purchases of silver for a very long time because of the large amount of Rupees in circulation at the present moment. If later on silver is required to be purchased, this should be done by public tenders, such tenders being invited in India.

APPENDIX 61.

Statement of evidence submitted by Mr. S. C. Shahani, M.A., Principal, Dayaram Jethmal Sind College, and Zamindar, Jamrao, Sind.

Q. 1.—(*a*) Is the time ripe for a solution of problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

(*b*) What is the comparative importance of stability in internal prices and in foreign exchanges?

(*c*) What are the effects of a rising and falling rupee and of a stability of high or low rupee on trade and industry including agriculture and on national finance?

1. The *time* is ripe for a solution of the problems of Indian Currency and Exchange. We have waited seven years since the armistice in a state of suspended thought. Our currency and exchange problems ought to be carefully examined as soon as possible, and a policy for the future formulated. Other countries too are considering their problems of Currency and Exchange.

From the standpoint of the nation as a whole *stability in internal prices* and in *foreign exchanges* are both equally desirable—the former for internal and the latter for external trade. It is difficult to say whether internal or external trade is more important. The two are not independent, and in India especially, where necessaries both of life and industry are the staples of external trade, the connection between the two trades is fairly close. Judged, however, by the total volume and value, the number of transactions and the number of persons directly involved, internal and stability of internal prices should be regarded as more important.

A rising rupee stimulates import, discourages industry, generally (agriculture included) and makes Government finance easy in respect of Government's foreign obligations.

A falling rupee discourages imports, stimulates exports, stimulates industry generally (agriculture included) and makes Government finance difficult in respect of Government's foreign obligations.

A high exchange would act generally as a drag on export trade and industry in general, and would have a tendency to stimulate import trade until markets and prices adjusted themselves to the new conditions. It would make Government finance easier in respect of its foreign obligations. A low exchange would tend to produce opposite effects.

Q. 2.—In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

Q. 3.—If the rate selected differs materially from the present rate, how should transition be achieved?

Q. 4.—What measures should be adopted to maintain the rupee at the rate selected?

Should the Gold Exchange Standard system in force before the war be continued and with what modifications, if any?

What should be the composition, size, location and employment of a Gold Standard Reserve?

2, 3 and 4. The Gold Exchange system should be abolished and a true Gold Standard established in its place.

(a) *Reasons for the abolition of the Gold Exchange system.*—Far from securing for the country stability of internal prices, it has actually caused an inflation of prices by the over-issue of currency. The over-issue is made possible by the fact that the rupee is merely an inconvertible note printed on silver and our paper currency is payable only in rupees. Rupee circulation cannot be contracted by the people at their will, for rupees will neither be melted, hoarded or exported. That the parallelism between increasing prices and increasing circulation is fairly close is shown by the following two tables compiled by Professor Keynes and Professor Jevons, respectively.

[Taken from Economic Journal, March, 1909.]

PROFESSOR KEYNE'S ARTICLE.

Year.			*Index of Prices.*	*Estimated total of currency on 1st April.*
1903	...	...	100	100
1904	...	...	102	110
1905	...	...	112	115
1906	...	...	131	127
1907	...	...	140	136

TAKEN FROM PROFESSOR JEVONS' FUTURE OF EXCHANGE.

Year.			*Index of prices.*	*Index of circulation.*
1912	...	...	100	100
1913	...	...	104	102
1914	...	...	107	99
1915	...	...	111	105
1916	...	...	134	119
1917	...	...	143	145
1918	...	...	164	165
1919	...	...	201	195
1920	...	...	205	205

(b) *Our currency is managed by the Government.*—Its expansion and the contraction depends on the Government's will and judgment. There being no automatic arrangement for elasticity we experience seasonal stringency and high bank rate.

(c) The Gold Exchange System has not given us even that stability of internal exchange for which it was especially devised. Our exchange rose from 1s 4d in 1914 to 2s 4d in 1919; in February 1920 it touched its highest water mark at 2s 11d; then it began its downward course reaching the level of 1s 5d again in December 1920. These violent fluctuations produced all those evils which the country had experienced during the period 1873-1893 and to escape which the silver standard had been departed from in 1893.

(d) The Gold Exchange system has not made us independent of the silver market. When in 1893 mints were closed to the free coinage of silver the object was to divorce the rupee from silver. Under the Gold Exchange system, however, the rupee continues to follow silver. That the divorce decree has not been effective is shown by the following table:—

Date.		*Average price of silver per ounce.*	*Exchange rate of the Rupee.*
April 1919	...	49*d*	18*d*
May 1919	...	51*d*	20*d* from 13th May.
June and July 1919	...	54*d*	
August 1919	...	59*d*	22*d* from 12th August.
September 1919	...	62*d*	24*d* from 16th September.
October 1919	...	64*d*	
November 1919	...	70*d*	26*d* from 22nd November.

Date.		Average price of silver per ounce.	Exchange rate of the rupee.
December 1919	...	$76\frac{1}{2}d$	28*d.* from 12th December.
January 1920	...	80*d*	
February 1920	...	58*d*	35*d.*
April 1920	...	72*d*	29*d.*
May 1920	...	57*d*	26*d.*
June 1920	...	50*d*	21*d.*
July 1920	...	56*d*	$22\frac{1}{2}d.$
September 1920	...	60*d*	$21\frac{3}{4}d.$
November 1920	...	46*d*	$18\frac{1}{2}d.$
December 1920	...	41*d*	17*d.*

(Copied from Modern Review, January 1921, p. 114.)

The Government helplessly acquiesced when the rupee ran after rising silver in 1919; but when it followed falling silver in 1920 the Government made herculean but vain efforts to fix it to 2 shillings gold and then to 2 shillings sterling, wasting 35 crores of India's money in the attempt.

(*e*) Under the pretext of supporting exchange the Secretary of State transfers India's funds—not only of the gold standard reserve, but also of the paper currency reserve and General Balances—to London and places them at the disposal of the London money market. If India's funds remained in India a vast credit structure could be built up which would support and develop the country's trade, industries and agriculture. As it is India is starved and the London market is taught to lean for support on India's funds which is bad for the London market itself. Under the true Gold Standard the Secretary would not have to support Exchange and India's funds would remain inland and fructify in various directions.

(*f*) The first essential of a currency is that it should be acceptable to the people. Now all elaborate schemes like that of Keynes, Fisher and others are not easy to understand and therefore will not be acceptable to the people; the more so because these schemes need to be worked by experts who are thoroughly conversant with principles of currency—and how few such experts are there in any country. The official managers of currency are not experts; they commit mistakes; people suspect Government of manipulating for its own ends and bitterness arises. The danger is specially great in a country like India where there is foreign rule and where people sunk in ignorance and poverty are ready to believe any wild rumours. People like gold and if they are given that they will readily accept it and the system being automatic in working Government will be free from criticism and attack.

The case of a true Gold Standard.

A true gold standard requires that all values shall be measured in terms of a standard coin made of gold, that there shall be an open mint for this standard coin, that all other media of exchange whether made of metal (token coins) or of paper like paper currency or cheques shall be convertible into this standard coin. A true gold standard in India would thus mean (1) a standard gold coin, (2) an open mint for gold, (3) paper currency convertible into gold, *i.e.*, gold notes, and (4) the rupee a token coin of limited legal tender. Reasons for its adoption:—

(*a*) *Its acceptability.*—People here as elsewhere like gold and have faith in it; they therefore readily accept gold and suspect all substitutes. Indian people in particular having been deprived of gold under the gold-exchange system have come to attach a special value to it.

(*b*) *Its Automatic working.*—The Government will be free from the responsibility of working and managing the system. There will be no chance for popular suspicion and criticism. The system will be elastic. Expansion and contraction of currency will take place in response to requirements of trade.

(*c*) *Under it India's funds will remain in India.*—On their basis a strong credit structure can be raised to promote India's prosperity in agriculture, industry and trade.

(*d*) It would give stable exchange with the principal trading countries of the world—for these too have a gold standard. We shall be free from the influence of the silver market.

(e) *It would secure a relative stability in prices.*—Even Professor Keynes who advocates an artificially regulated standard writes in his Tract on Monetary Reform that "the metal gold might not possess all the theoretical advantages of an artificially regulated standard, but it could not be tampered with and had proved reliable in practice." Again in the same book he says—" The considerable success with which gold maintained its stability of value in the changing world of the nineteenth century was certainly remarkable. I have applauded in the first chapter. After the discoveries of Australia and California it began to depreciate dangerously, and before exploration of South Africa it began to appreciate dangerously. Yet in each case it righted itself and retained its reputation." Professor Keynes, however, thinks that gold will not be able to maintain this reputation in the new conditions of the 20th century and therefore pleads for an artificially regulated standard. While it is true that during recent years there have been large variations in the value of gold, yet on the other hand inconvertible paper currencies have led to violent fluctuations in prices and all attempts at a government regulated system have failed. It is therefore more prudent in practice to have a tried though imperfect gold standard than to have one which has proved a signal failure. An artificially regulated system on paper may sound perfect—but like all perfect paper schemes, *e.g.*, Socialism and N.C.O., it requires perfect men with unlimited resources to work it in a perfectly calm and favourable atmosphere. Since such perfect conditions are difficult to attain it is better to have a less perfect but more practicable scheme like the gold standard. " The possibility of a gold exchange system being perverted to suit some corrupt purpose is very considerably greater than the possibility of the simple gold standard being so perverted." (Cannan.)

(f) A gold currency in circulation and convertibility of all other media of exchange into gold would inspire confidence and people would be encouraged to bring out their hoards of gold for investment which would promote the industrial and commercial prosperity of the country.

(a) *Objections against a Gold Currency answered.*—The people in India do not need gold for currency purposes. Their transactions being of small value, the rupee is better suited for their requirements.

This is true of the bulk of the people who are small men engaged in small transactions. But this is no objection to gold currency. When in Akbar's time the rupee was a standard coin, bulk of the people were using Copper Dams because of the very low level of prices and wages that then existed. So also now. Gold may be the standard coin, but the people in the villages may continue to use silver rupees for their purposes. The smallness of transactions is rather an argument for limiting the legal tender of the rupees and making them true tokens as required by the gold standard.

Residents of towns and cities, and grain agents and larger zamindars in the country will use gold coins freely as they did in the years just preceding the war. The large absorption of sovereigns during the period 1910—1914 led the Government to institute special inquiries about the exact use made of the gold. The enquiries of 1911-12 showed that " a very considerable portion of the gold absorbed in the Punjab was actually in circulation as currency, that in some cases better rates and terms could be obtained when gold was tendered in payment of produce than when silver was offered, gold thus being practically at a premium. ' The people preferred gold because it was less troublesome than silver money.' The enquiries made in the Gujranwalla district showed that all the grain agents paid the zamindars chiefly in gold and that the zamindars paid their revenues in gold. ' The zamindar prefers to have his price for the grain in gold as he can easily carry it, and easily exchange it, and if necessary, put it away. He shies at currency notes of any value as they cannot be easily exchanged and to receive payment in silver means cost of carriage and a greater risk of being robbed.' Gold was in short, preferred because it is money of higher monetary utility than silver. The enquiries made in Bombay showed that gold was not being hoarded or melted to the same extent as before, and that gold circulation was steadily increasing. The enquiries made in the United Provinces, Madras and Burma showed similar results." Enquiries were again made in 1913-14 and the general conclusion of the Comptroller of Currency was that " in large portions of India sovereign is now entering largely into ordinary transactions in cases in which they are of sufficient size to make its use possible."

(b) *People in India would simply hoard gold coins.*—There is no doubt that there is a certain amount of hoarding going on in India. In the absence of widespread banking people cannot but hoard their spare cash. But the extent

to which the hoarding takes place is often exaggerated. The bulk of the people being miserably poor and perpetually in debt, have nothing to hoard. Men of substance in the country, *e.g.*, Zamindars may have to hoard their spare cash in the absence of good banking service at home, but this is not inconsistent with their using gold as currency to the extent of their requirements. The extract given above shows that gold was being increasingly used as currency and was not disappearing into hoards " like rain into the sea." When after the outbreak of the great war the sovereign went out of circulation it was merely a case illustrating the operation of Gresham's law. The refusal of the Government to give sovereigns freely during the war merely intensified the hoarding habit. The habit is undoubtedly an evil, but it cannot be cured by withholding gold from the people. It can be cured only by giving them gold freely and creating banking facilities. Gold as a rare thing is prized and hidden away. Make it common as currency and its charm will be lessened.

(*c*) *Gold in reserves is a better support for exchange than gold in circulation.*—True, but as it was pointed out by Sir J. Begbie " gold in circulation was a better protection for exchange than token coins." Again, banks would keep their reserves in gold only when gold became the currency of the country.

(*d*) *Gold currency was " almost certain in the long run to militate against the use of notes.*"—Gold would certainly be preferred to rupee notes, but under the gold standard notes being freely convertible into gold this preference would be very much weakened and in the long run the greater convenience of the note was bound to tell.

(*e*) *Gold currency was a wasteful luxury.*—The first essential of a currency was that it must command people's confidence. A currency that commanded such confidence would certainly serve better as currency than another which was regarded with suspicion. Such a currency cannot be described as a luxury. It is a necessity. It is the gold exchange system which is viewed with suspicion and works with friction that is really wasteful. In a single attempt to reach the 2 shillings exchange the Government threw away 35 crores of India's money. Can there be a greater waste than this? These 35 crores would have given India a gold currency and a true gold standard.

Q. 5.—Who should be charged with the control of the note issue and on what principles should control or management be transferred to the Imperial Bank of India, and if so, what should be the general terms of the transfer?

What provisions should be made as to the backing of the note issue?

What should be the facilities for the encashment of the notes?

What should be the policy as to the issue of notes of small values?

5. As stated above, Paper Currency should be put on a gold basis, *i.e.*, made convertible into gold. The entire note-issue should be backed by a Paper Currency Reserve of equal value; but the notes shall be deemed to have been issued on the credit of the Government of India as well as on the security of the reserve as now. The experiment of gold notes being now the reserve should be held more liquid than at present. 75 per cent. should be metallic, mostly in gold; 25 per cent. in securities at their purchase price. The securities shall be partly of the United Kingdom and partly of the Government of India, the former never exceeding the latter. The securities of the United Kingdom shall be such that the date of their maturity is not more than one year from the date of their purchase. Of the securities of the Government of India not more than Rs. 12 crores shall be created securities. To relieve seasonable stringency, in addition to these securities, the Paper Currency Reserve may hold commercial paper, maturing within 90 days and endorsed by Imperial Bank, of the maximum value of Rs. 12 crores—against which notes may be issued to Imperial Bank.

Location of the Reserve.—The object of the Paper Currency Reserve being to support notes legal tender in India only, the whole of the reserve should be located in India.

Chamberlain Commission's recommendation should be carried out. " We recommend that the Government should increase, whenever and wherever possible, the number of places at which the notes are encashable of right as well as the extra legal facilities for encashment. We think it would be desirable to universalize at once the notes of Rs. 500." Such small notes as Re. 1 should not be issued. They afford no convenience to the public and are difficult to preserve.

Paper Currency should continue to be controlled and managed by Government. Reasons: (1) People have greater confidence in Government than in Banks. (2) The experiment of gold notes is new.

Q. 6.—What should be the policy as to the minting of gold in India and the use of gold as currency?

Should the obligation be undertaken to give gold for rupees?

6. The obligation to give gold for rupees should be undertaken; and the policy as to the minting of gold in India and the use of gold as currency should be as follows :—

(1) Indian mints should be thrown open to the unrestricted coinage of gold.

(2) Two special gold coins—equal to Rs. 20 and Rs. 10 respectively (a mohur and a two-mohur piece—Mohur = 10 rupees)—be minted in India. These coins to be legal tender in India. No other gold coins to be legal tender.

Special gold coins are recommended (and not British sovereign and half-sovereign) with a view to avoid repetition of a conflict with the British Treasury and the Royal Mint at London.

(3) The Secretary of State should not intercept gold due to India by reason of the favourable trade balance. He should confine his sale of Council Bills to the realisation of the Home charges. The gold thus allowed to flow into India would feed the gold mints. Similarly in times of distress hoarded gold may be brought to the mint for coinage.

(4) The Gold Standard Reserve should be located in India and held in liquid gold.

(5) Gold should be given for rupees in India.

(6) As far as possible Government should discharge its obligations in India in gold.

(7) The rupees should be declared a limited legal tender up to a maximum of Rs. 50.

(8) " No fresh rupees should be coined until the proportion of gold in the currency was found to exceed the requirements of the public."

(9) Paper currency should be put on a gold basis. Gold notes to be issued in place of silver notes.

(10) " With the object of attaining the effective establishment of a gold standard and currency as above, the Government of India should husband its resources, exercise a resolute economy, and restrict the growth of its gold obligations abroad." To this end stores should be purchased in India and the services should be Indianised.

Q. 7.—By what method should the remittance operations of the Government of India be conducted?

Should they be managed by the Imperial Bank?

7. The remittance operations of the Government of India should be managed by the Imperial Bank.

Q. 8.—Are any, and, if so, what measures desirable to secure greater elasticity in meeting seasonal demands for currency?

Should any, and, if so, what conditions be prescribed with regard to the issue of currency against hundis?

8. The existing policy of issuing notes against commercial paper or hundies, of not more than 90 days' maturity, endorsed by the Imperial Bank of India, of the total value of 12 crores of rupees, is desirable to secure greater elasticity in meeting seasonal demands for Currency.

Q. 9.—Should any change be made in existing methods for the purchase of silver?

9. Some change should be made in existing methods for the purchase of silver. Less of rupee coinage will have to be gone in for under the true gold standard. Therefore less of silver will have to be purchased. Silver should be purchased in small quantities from year to year to escape the clutches of the speculators.

APPENDIX 62.

Statement of evidence submitted by Mr. B. Das, M.L.A., of Cuttack.

1. Political India is emphatically of opinion that problems of stabilisation of Indian currency and exchange have too long been shelved by the dictates of Whitehall. The British policy has been to see London the centre of world's Gold reserve. To allow India a free hand to shape its own policy in currency and exchange means ultimate transfer of India's Gold reserve from London to India and cessation of exploitation of India's helpless financial situation by

British financiers and cabinet ministers. Indian commercial opinion has held similar views which has been recorded in evidences of representatives of different Indian Merchants' Chambers before various commissions dealing with currency problems in the past. The suspicion, that Whitehall wants strong control over the Indian Finance member and his policy of currency and that exchange is manipulated by dictation of Whitehall so that India gets the least advantage in her trade and commerce, is well grounded and has still to be controverted by the successive Finance members of the Government of India. The least that the present Royal Commission can do is to give freedom of action to future Finance members of the Government of India who can shape their financial policy for the good of India and the Indian taxpayers.

2. The rupee can have one standard—the *Gold Standard*—being 1/15 of the Sovereign. India desires Gold Standard in the interest of her commerce and industry, and not the least of all, in the interest of her national dignity. India needs no manipulation in this direction to suit the taste of financiers and merchants of England.

3. The present manipulated rate has been maintained at great odds by secret manipulations the history of which are buried in the archives of the Finance Department of Government of India and the Secretary of State for India at Whitehall. Concensus opinion in India wants the rate of 1/15 of the Sovereign. In the transition stage there are bound to be temporary dislocations, but no crisis can be worse than what India faced in 1920-21 when the then Finance member of the Government of India by stroke of pen bartered away India's millions of reserves in London and justified his policy of high exchange by selling reverse council bills. India can have no sadder disaster. Gold Standard can only permanently remove chances of recurrence of such disasters.

4. As I have already observed, in Gold Standard lies the solution of the Indian currency muddle. I reiterate my observation in paragraph 1 that all Gold reserves shall remain in Indian Banks and State Banks in India. Too long has England traded on India's Gold reserve. The Secretary of State will have no further control on India's Gold reserve and the same should immediately be transferred to India.

5. I have no objection to the transfer of the control of the Note to the Imperial Bank of India, provided that Bank fulfils all the obligations and duties of a State Bank.

The Imperial Bank of India as at present constituted, though it has large Indian shareholders, is entirely European-controlled and European-managed. It has got too much rope from the State through the Imperial Bank of India Act, 1920, and in spite of gilded bodies such as Central Governing Board or Local Advisory Boards with Indian merchant magnates on the same, its control and management are in the hands of a few interested—the vested interest of a few European employees of the Bank. Interpellations on the policy and management of this Bank are tabooed in the Legislative Assembly under rules and clauses in the armoury of the Finance member. The people of India look with great suspicion on the doings of the management of the Imperial Bank. Since its amalgamation it has gone on creating new posts for bank clerks of England and the number of European employees have alarmingly increased.

The system of recruitment in England for superior services of the Bank do not allow equal opportunity to Indian young men to compete for them. The ring formed by British and European banks, for not giving facilities for training to Indian graduates in banking, is another drawback to Indians. Even the London branch of the Imperial Bank does not give proper facility for training to Indian commercial graduates. Such policy of racial discrimination must be done away with before the Imperial Bank can be made India's State Bank. It should have Indian managing governors. It should train up Indian commercial graduates in England for superior services and by and by, the invidious discriminating policy in its services must be done away with. At present there are no Indians occupying Staff Appointments in the Imperial Bank of India. All these must go, and before the control of Note is given to the Imperial Bank, the Bank must function as a State Bank existing for the good of the State and the people of India. I take this liberty to enclose copy of a bill I am anxious to see through in the Indian Legislative Assembly and the passing of which will bring the Imperial Bank nearer to a State Bank. The Bank handles without paying any interest the huge sum of 500 crores of rupees or more on behalf of the State. Before transfer of further power in shape of control of Notes and transfer of India's Gold reserve, the people of India desire to see its policy

controlled by the Indian Legislature. In fact, the Bank should be run as a State Department under the control of Indian Legislature. If necessary, the State may take steps to nationalise the Bank at present market valuation.

The Secretary of State will not exercise any control over the Imperial Bank of India when constituted as the State Bank. The Governor-General in Council with the guidance of the Indian Legislature shall shape its policy.

Every facility should be given for the encashment of notes and notes of five rupees shall be the lowest denomination. I am against use of one-rupee notes as the villagers are adversely affected by their easy destruction from water. I have known tragic instances where hard-earned incomes of poor villagers—at time it does not exceed a rupee or two, becoming valueless under water. Members of the Commission as constituted—the Commission has no representative of the middle classes or the masses on its body—may not quickly grasp this tragic situation but let not masses suffer because a few people in the cities can have handy one-rupee notes in their coat pockets.

Indian mints should be opened to coinage of gold and gold coins should be given in exchange of rupees.

7. No money shall lie in the name of the Secretary of State for India in London. All money shall be remitted through the Imperial Bank of India (constituted properly as the State Bank) in the name of the High Commissioner of India and the High Commissioner shall disburse all liabilities on the Indian exchequer. The Imperial Bank of India should not dabble in foreign exchanges and will only operate for the State and for its clients.

8. The Imperial Bank of India constituted as the State Bank of India should have power to issue emergency currency or adopt such methods as to mitigate stringency of currency due to seasonal demands. The Governing body of the State Bank shall be so constituted as to have on it representatives of the Government of India, of the Indian Legislature and of the industrial and commercial magnates of India. Due consideration should be given to the observations in his excellent note of dissent on the report of External Capital Committee wherein my friend Pandit Madan Mohan Malaviya, M.L.A., has defined the policy and constitution of the State Bank of India. I have pleasure in recording here my full agreement to the same.

[*To be introduced in the Legislative Assembly.*]

A BILL FURTHER TO AMEND THE IMPERIAL BANK OF INDIA ACT, XLVII OF 1920.

Whereas it is expedient to amend the Imperial Bank of India Act of 1920 for certain purposes hereinafter appearing; It is hereby enacted as follows:—

Short Title & Commencement.

1.—(1) This Act be called the Imperial Bank (Amendment) Act, 192 .

(2) It shall come into force on such date as the Governor-General in Council may, by notification in the Gazette of India, appoint.

2. After Section 10 (*b*) the following shall be inserted, namely:—

Insertion of New Section 10 (*2*) (*c*) (*d*) in Act, 1920.

10 (2) (*c*) That from the date of the promulgation of this Act as amended, the total number of European officers shall not at any period exceed the number employed at the time of amalgamation of the Presidency Banks.

(*d*) That the London Branch shall provide training for at least five Indian graduates from recognised Universities every year.

Amendment of Section 28 (*1*).

3. In Clause (*v*) of Sub-section (1) of Section 28 of the Imperial Bank Act, 1920, after the words "Central Board" insert the words "of whom one at least shall be an Indian."

STATEMENT OF OBJECTS AND REASONS.

The Imperial Bank of India Act, 1920, was passed with a view to regulate the relations of the Secretary of State with the then Presidency Banks that were amalgamated with the Imperial Bank. This Bank now practically acts as the State Bank of India and enormous Government balances are entrusted to it. It is not unreasonable to ask that Indians might be given wider opportunities in a Bank of this kind. The Act as amended now will remove some of these standing grievances.

APPENDIX 63.

Demi-official letter No. 375 F., dated 14th January 1926, from Mr. A. C. McWatters, C.I.E., I.C.S., to the Right Hon. E. Hilton Young, P.C., D.S.O., M.P.

There is one subject which was not discussed when I gave evidence before the Currency Commission and which the Commission are likely to desire to consider. It is the re-introduction of the one-rupee note. I think it would be convenient for the Commission to have before them the official correspondence on this subject, which I enclose.

I.—Office Memoranda relating to the Retrenchment Committee's suggestion that the issue of one-rupee notes should be abandoned.

Office Memorandum by the Government of India, Retrenchment Office, No. 742 R.E.T., dated 7th April 1923.

"Generally speaking, no solvent country, so far as we know, issues a note of such a small denomination as one rupee, and we think that if, as appears to be the case, a saving would accrue from the discontinuance of the one-rupee note, the issue of these notes should be abandoned."*

Will the Finance Department kindly say what steps have been, or are being, taken to give effect to the above recommendation?

* Extract from Report of the Indian Retrenchment Committee.

Memorandum from the Government of India, Finance Department, No. 648 F., dated 14th April 1923, to the Retrenchment Office.

The Committee's recommendation raises a large question which requires careful consideration. It is proposed to examine it as soon as possible, but meanwhile, in order to effect as much saving in expenditure as possible during 1923–4, the Finance Department have arranged to cut down new supplies of one- and ten-rupee notes and to continue re-issues of notes of the latter denomination.

II.—Correspondence between the Government of India, Finance Department, and Chambers of Commerce, &c., in India.

From the Government of India, Finance Department, No. 708 F., dated 24th April 1923, to all Chambers of Commerce.

I am directed to invite your attention to the remarks of the Indian Retrenchment Committee on the question of the discontinuance of the one-rupee note. Para. 5 of the Committee's report under the head "Currency" reads as follows:—

> "We reproduce as Appendix A an extract from a note by the Controller of the Currency regarding the relative cost of the silver rupee and the one-rupee note, from which it would appear that it is more economical to use silver rupees than paper rupees. The one-rupee note was introduced as a war measure. Generally speaking, no solvent country, so far as we know, issues a note of such a small denomination as one rupee, and we think that if, as appears to be the case, a saving would accrue from the discontinuance of the one-rupee note, the issue of these notes should be abandoned."

2. The Government of India do not wish to trouble the Chamber on the subject of the relative cost of one-rupee notes as compared with silver rupees. The calculations quoted by the Retrenchment Committee were admittedly of a hypothetical nature, and the Government of India will themselves consider this aspect of the question in the light of all the information that is available, and after consideration of the report of the special officer who has been deputed to England to study the question of reduction in cost of note forms and the possibility of manufacturing or printing them in this country. There are, moreover, other factors which enter into the question of cost which have to be taken into consideration; for example, a reduction in the number of note forms will appreciably reduce the cost of handling notes at the Currency Offices and will thus reduce the cost of Currency establishments. On the other hand, the substitution of silver rupees for notes will lead to an appreciable increase in the

remittance charges which are borne by Government; for example, in the last two years the greater part of the finance of the jute crop in Bengal has been met by notes of the ten-rupee and one-rupee denominations which have been sent out to the jute districts. If the one-rupee note were discontinued, some portion of the remittance would undoubtedly have to be in the form of silver, which is naturally much more expensive. Another factor which has to be taken into consideration is the extent to which the one-rupee notes in their booklet form, which is slightly more expensive than the single notes, have replaced notes of higher denominations. The question of relative cost, therefore, will involve very careful and detailed examination.

3. The point on which I am to invite an expression of opinion of your Chamber is the value which, in the opinion of your Chamber, is attached by commercial men and the public generally to the provision of paper currency of such a small denomination as one rupee. It is obvious that the question of the discontinuance of the one-rupee note cannot be decided on the question of cost alone. The Indian Retrenchment Committee, it will be observed, objected to the one-rupee note on grounds of principle also, and the question of principle is undoubtedly an important one. On the other hand, in a matter such as this the convenience of the public requires to be fully considered. The notes in the booklet form are popular, and they have in fact been unable fully to meet the demand. There is the further point that the one-rupee note in the past was found useful as a substitute for silver when the price of silver was high and silver was difficult to obtain. It may, therefore be regarded as a useful reserve should similar circumstances arise again; and the use of these notes, which is now more or less firmly established throughout the country, might be difficult to restore in time of emergency. I am to invite the opinion of your Chamber on these general aspects of the question.

From J. K. Mehta, Esq., M.A., Secretary, The Indian Merchants' Chamber, Bombay, No. T. 410, dated 26th April 1923.

Regarding the request of the Honourable Finance Member for an expression of views of my Committee on the advisability of continuing the issue of one-rupee notes, my Committee have discussed this question among themselves and have come to the conclusion that whereas the preference by the community for currency notes of other denominations as against silver metallic coins is to be welcomed as making it easier for the Government to go over ultimately to the Gold Standard, the question of one-rupee notes should be examined on very different grounds from this. The chief points which occur to my Committee are:—

(I) The cost of maintaining a continuous issue of one-rupee notes, which, they understand, at present involve an additional and uncalled for burden on the tax-payer;

(II) The convenience to the public of different classes.

Regarding the question of convenience the consensus of opinion is that the present material used in one-rupee note and its size involve considerable losses by these notes being either lost or torn or mutilated in their currency from hand to hand and in being carried about. The convenience in tearing out one-rupee notes for small expenditure from the 25-rupee note books for the middle and higher classes does not compensate for the losses inflicted on the poorer section of the community in their use of this form of currency or on the tax-payer in the cost of keeping up this form of currency.

From J. K. Mehta, Esq., M.A., Secretary, The Indian Merchants' Chamber, Bombay, No. T. 442, dated 5th May 1923.

With reference to your letter No. 708 F., dated the 24th April 1923, I am directed by my Committee to say that they have nothing to add to their letter No. 410, dated 26th April, addressed to your Department on the subject of the discontinuance of the one-rupee note.

From Sagar Mal Harlalka, Esq., Honorary Secretary, Marwari Chamber of Commerce, Calcutta, No. 119, dated 7th May 1923.

With reference to your letter No. 708 F., dated the 24th April 1923, I am directed by my Committee to state that they concur in the opinion of the Indian Retrenchment Committee about the discontinuance of the one-rupee note, because the public have to suffer much for its size, durability, &c. They wholeheartedly wish that one-rupee note should be discontinued.

From the Secretary, Karachi Chamber of Commerce, No. 20 *C.F.* 1, *dated* 9*th May* 1923.

I am directed to acknowledge receipt of your letter No. 708 F., dated the 24th April 1923, on the above subject, and in reply to state that in the opinion of my Committee no disadvantage would accrue if, in the interest of economy, the one-rupee note were abolished. Enquiries made by my Committee show that in some cases the abolition would be welcomed.

From Messrs. Goculdas Jivraj Dayal and Harjivan Valji, Honorary Joint Secretaries, Bombay Native Piece-Goods Merchants' Association, No. 141, *dated* 8*th May* 1923.

We are directed by the Managing Committee to acknowledge the receipt of your letter No. 708 F., dated the 24th ultimo, and state that after very careful consideration of the question, they are of opinion that one-rupee currency notes should be discontinued and silver coins be substituted for them.

From the Honorary Secretary, Marwari Association, Calcutta, No. 104, *dated* 9*th May* 1923.

I am directed by the Committee of the Marwari Association to acknowledge the receipt of your letter No. 708 F., dated the 24th ultimo, asking for the opinion of my Committee on the question of the discontinuance of the one-rupee note.

My Committee note that the Government of India do not wish to trouble them on the subject of the relative cost of one-rupee notes as compared with silver rupees.

My Committee agree with the Government that the question of discontinuance of one-rupee notes cannot be decided on the question of cost alone. On principle my Committee agree with the Indian Retrenchment Committee that a note of such a small denomination as one rupee should not be issued.

As regards the value attached by the commercial men, I am to mention that in making big trade payments the one-rupee note hardly finds a place, and what use is made thereof in making trade payments can with equal convenience be served by the one-rupee coins. The convenience of the public exhausts itself as soon as the one-rupee note is taken out of the booklet, and thereafter the handling of the one-rupee note becomes very inconvenient, and the note is easily liable to damage and loss. In the muffassil, people are accustomed to put their cash in the loin cloths, and the one-rupee note does not conveniently yield itself to such treatment. Petty dealers, by the very nature of their occupation, have often to keep their hands moist or oily and dirty, and the one-rupee note is very inconvenient to be handled by such persons. The large use made in recent times of the notes of one-rupee denomination for jute payments referred to in the letter under reply is the result more of compulsion than of choice, inasmuch as the law compelled the seller and the creditor to receive such notes in payment of their dues.

My Committee have carefully considered the point that the one-rupee note in the past was found useful as a substitute for silver when the price of silver was high and silver was difficult to obtain, and it might therefore be regarded as a useful reserve. The question of substitute necessarily involves the question of principle to which I have already adverted. Furthermore, my Committee believe that the too high price of silver was due to the very abnormal conditions created by the war, which affected the whole of the world, and lasted for several years, and the like of which is not to be found in history. To continue a currency not sound in principle to meet such an abnormal contingency cannot be justified. The maintenance of the high price of silver has also been due to the operations under the Pitman Act, another emergency measure on account of the war, and which operations will cease within a very short time.

In the circumstances, my Committee approve of the discontinuance of the one-rupee note.

From the Honorary Secretary, Chittagong Chamber of Commerce, dated 10*th May* 1923.

I have the honour to acknowledge receipt of your letter No. 708 F. of 24th ultimo, and am directed to say that the general preference seems to be for silver rupees. It is, however, the opinion of the Bankers here that the one-rupee note is handier for the public, and should not be discontinued.

From the Secretary, Burma Chamber of Commerce, dated 10th May 1923.

In reply to your letter No. 708 F., dated the 24th April 1923, I am directed to say that the use of the one-rupee note has now become so well established in all large centres that its abolition would be extremely unpopular. It is far more convenient for handling than silver, and the early prejudice against it has not only disappeared, but there is reason to believe that it is more readily accepted than silver coinage. Its popularity will no doubt continue, provided no difficulties are placed in the way of the substitution of clean notes for those which have become dirty or worn.

It is seemingly true that the one-rupee note remains unpopular in outlying districts, away from communications; and, in fact, there are many parts where it has not been, and probably cannot be, brought into circulation. There is also a border line where its circulation is liable to abuse.

3. However, the principal circulation of money being in large centres, there seems to be no doubt that the majority are in favour of the retention of the one-rupee note, and this Chamber is opposed to its abolition.

From the Assistant Secretary, Millowners' Association, Bombay, No. 470–76, dated 15th May 1923.

I am directed to acknowledge receipt of your letter No. 708 F., dated the 24th April 1923.

My Committee are generally of the opinion that the one-rupee note, and more especially in the booklet form, is a great convenience to the public, and shows a tendency to grow in popularity. This tendency is probably not so marked among the labouring classes in the mofussil, amongst whom the silver rupee is preferred at the present time.

Among merchants and traders divergent views are given as to the extent of the note's popularity, but there is general agreement that they could be improved.

The objections to the note in its present form are—

(*a*) The note is too small, cannot be handled efficiently, and is easily lost.
(*b*) The quality of the paper used is poor, and the notes are easily torn and quickly soiled.

Taking all the circumstances into consideration my Committee suggest that, in view of the growing popularity of the one-rupee note, and taking into consideration the possibility of improving it as regards size and quality, the note should be given a further trial for five years before the question of its discontinuance is decided upon.

From the Acting Secretary, Chamber of Commerce, Bombay, No. 1233–187, dated 17th May 1923.

I have the honour to acknowledge the receipt of your letter No. 708 F., dated the 24th April 1923, in which you request the opinion of this Chamber on the question of the discontinuance of the one-rupee note.

2. I am to say at the outset that in so far as the economic aspect of this question is concerned, my Committee are strongly of opinion that the withdrawal from circulation of the one-rupee note is greatly to be desired, for, in their opinion, there can be no justification for the continuance of the issue of these notes having regard to the very favourable percentage of metallic backing that the Indian note issue at present possesses.

3. Notes of this small denomination were originally issued purely as an emergency measure to cope with circumstances that my Committee consider will never occur again to the same acute extent; and as the reserves of silver coin are clearly of sufficiently large dimensions to permit of the redemption—if need be—of this class of note I am to say that my Committee have no hesitation in affirming that they should be withdrawn from circulation as soon as may be convenient.

4. I am to state that in the opinion of my Committee the withdrawal of small denomination notes is likely to increase the circulation of silver coin, a state of affairs most eminently desirable in India, where the illiterate section of the populace believe that the free circulation of silver rupees is a sign of strength in the position of the Government; further, I am to add that notes of this denomination are invariably held

mainly by the poor and ignorant classes, and that therefore their withdrawal will remove to a great extent the danger and inconvenience of a rush to exchange paper for currency in times of emergency.

5. Finally, I am to point out that considerable inconvenience is experienced in many instances by the commercial community owing to the difficulty of "shroffing" these notes; also my Committee are of the opinion that the abolition of the one-rupee note would probably lead to an increase in the use of the five-rupee note, for the era of the one-rupee note has led to an extended use of paper currency, and for this reason they do not view at all seriously the theory that should the one-rupee note be withdrawn it would be difficult to restore it in case of emergency.

From the Secretary, Bengal Chamber of Commerce, Calcutta, No. 1534, *dated* 29*th May* 1923.

I am directed to acknowledge the receipt of your letter No. 708 F., dated 24th April 1923, on the question of the proposed discontinuance of the one-rupee note.

2. You refer to the remarks which were made by the Indian Retrenchment Committee on this question. It appeared to the Retrenchment Committee, from certain figures which had been put before them by the Controller of Currency, that it is more economical to use silver rupees than paper rupees. They accordingly suggested that the one-rupee note should be discontinued. In support of the suggestion they mentioned that the note was introduced as a war measure; and that, so far as was known to them, no other solvent country uses a note of so small a denomination.

3 You indicate that the question of cost will be dealt with by the Government in the light of information that they are now collecting. But you ask for an opinion from the Chamber as to the value which is attached by commercial men, and the public generally, to the provision of paper currency of such a small denomination as one rupee. In reply to this request I am to say that the Committee of the Chamber agree with the Government that the question of principle which the Retrenchment Committee raise is of importance, and is therefore worthy of consideration. They doubt, however, if it is correct to suggest that the use of a note of so small a denomination is a sign of a bankrupt Government. For it is, they believe, a fact that the French Government and the Government of the Straits Settlements use notes of much smaller denominations. Moreover, it must be borne in mind that proportionate to the living expenses of the mass of the people a one-rupee note in India is not really very far short of the equivalent of a 10*s*. note in the United Kingdom.

4. When the proposal to introduce the note was put forward six years ago the Committee of the Chamber, although they wished to support it strongly, pointed out that there was a possibility of danger, for the innovation was being made at a time of great national crisis. The Government of India were themselves also apprehensive that the issue might have a greatly disturbing effect, seeing that a rise had occurred in the price of silver, and that silver currency was generally believed to be scarce. But the result of the experiment fortunately showed that these fears were without foundation. The note was readily accepted, and the Government must have been relieved to find that it so quickly became popular, especially in the jute districts. It now seems to be thoroughly well established, and its popularity is sufficient evidence of its value to the public. As must be clear to everybody, it is infinitely more convenient, and less cumbersome to carry and to handle, than the silver rupee.

5. This being the position, it may be safely affirmed that very great value is attached to the one-rupee note by commercial men, and the public generally, in this province. The Committee of the Chamber would be decidedly opposed to its withdrawal, for they have always been, and still are, advocates of the extension of the use of the paper currency. They are consequently glad to see that the one-rupee note has so readily found acceptance; and they would advise the Government not to throw away the advantages which have been thus gained. The situation at the moment is admittedly different to that which existed in 1917 when the note was introduced. But the need may arise again in the future, and it may be that confidence would not be so easily secured a second time.

From Rai Sahib Bidhu Bhusan Chatterjee, Assistant Secretary, Bengal Mahajan Sabha, Calcutta, dated 31*st May* 1923.

With reference to your circular letter No. 708 F., dated the 24th April 1923, inviting opinion on the question of the discontinuance of the one-rupee note, I have to state as follows:—

The Sabha has not taken into consideration the disputed point regarding the relative costs of the silver rupee and the one-rupee note as directed by your circular, nor has my Chamber gone into the question of the relative costs of remittance of the said two forms of currency which in our opinion is a hypothetical matter.

The opinion of the Sabha on the general aspects of the questions is as follows:—

1. The rupee note, although more portable, has corresponding disadvantages for which it does not find favour with the cultivators, farmers, boatmen, manghis, and fishermen, dealers in country produce generally, and with the merchants and shopkeepers in mofussil towns and villages, some of the principal reasons being that the one-rupee note gets soiled and torn very soon in handling—the farmers and labourers do not as a matter of fact manage to keep the notes clean even for a comparatively short time. It becomes very difficult in the villages to get such soiled and partially torn notes accepted by the villagers and labourers themselves, with the result that these notes have to be sent to the Currency in Calcutta for renewal at considerable cost, inconvenience, and delay.

2. The cultivators, labourers, fishermen, and even petty shopkeepers always carry the notes about their person tucked up somewhere in their loin clothes, as they have not boxes or bags or any other safe places, even at home, to keep them. These notes consequently get oily, dirty, wet, and torn when the farmers, manghis, and boatmen and fishermen are at work in the rains in the water-logged fields, or having their daily ablution.

3. These notes, being very light and small, more often get lost (blown away by wind and affected by rain, water, damp, and moisture) than the silver rupee, and that is one of the reasons why people like the one-rupee notes in the booklet form. So far as the information of my Sabha goes, the booklets have found favour with business people in towns and the travelling public only, and not with the labourers, agricultural classes, and petty business people, who form by far the vast majority in Bengal. My Sabha does not consider that the rupee notes have become firmly established throughout the country, but, on the contrary, are still looked upon with disfavour by the masses.

4. The villagers and other mofussil residents look on the silver rupee with more confidence and favour, and the fact that the disadvantages as stated above do not exist in the case of the silver coin is one of the reasons for its popularity.

5. The poorer classes of His Imperial Majesty's subjects have to handle the rupee notes oftener and very seldom have occasion to handle notes of higher denomination and consequently the disadvantages enumerated above cannot equally apply to notes of all denominations.

My Sabha recommends, therefore, the withdrawal of the one-rupee paper notes and the universal circulation of silver rupees.

From the Secretary, Upper India Chamber of Commerce, dated 31*st May* 1923.

I am directed to refer to your No. 708 F. of the 24th April 1923 on the subject of the discontinuance of the one-rupee note.

Opinion as to the usefulness and as to the desirability for the continuance of the issue of these notes is so divided that it may be said that it is immaterial whether the one-rupee note is discontinued or not.

On the whole, however, opinion inclines in the direction of letting the one-rupee note alone; to issue it and to see how the continued demand for it regulates itself.

From the Secretary, Punjab Chamber of Commerce, Delhi, No. 464, *dated* 4*th June* 1923.

In reply to your letter No. 708 F., dated the 24th April 1923, I am directed to inform you that my Committee has carefully considered the several points indicated in your letter upon which an expression of the opinion of this Chamber is invited, and, while the question of principle has been given due weight, my Committee has

endeavoured not to neglect the prominence due to other factors, which are dealt with below :—

1. The one-rupee note is popular in commercial and industrial circles, as a medium for the easy and safe storage, accounting and distribution of money. It is apparently popular with all classes of the public, particularly in the booklet form.
2. Withdrawal of the one-rupee note from circulation and a return to the various inconveniences experienced when coined rupees have to be carried, stored, and generally dealt with, would probably be considered inimical to convenience by a large section of the public.
3. Purchases of silver by Government must always tend to raise the price of that metal, which is also at times difficult to obtain in the large quantities required, and the utility of the one-rupee note in cheapening the price of silver while employed as an acceptable substitute for it has been proved by experience.
4. It is conceivable that emergencies may arise in which Government will require to have recourse to the re-establishment of the one-rupee note to replace coined rupees in circulation, and the vogue now accorded to the one-rupee note will be difficult to establish again.
5. The utility of the one-rupee note in diminishing hoarding is not touched upon in your letter, and I am consequently instructed to do no more than mention the point as worthy of consideration.
6. The only real argument against retention of the one-rupee note is that of economy, and whilst this Chamber is very anxious for Government to reduce expenditure in every possible way, my Committee is not convinced that much or any saving would be effected in the budgets for this and many succeeding years by the purchase and cost of minting silver to replace one-rupee notes now in circulation.
7. The one-rupee note serves a useful purpose in educating agriculturists and others in the districts as regards the value of paper replacement of coin, which should be encouraged, as leading to an extension of the use of notes of larger value, and ultimately to cheques, bills, &c., and the banking facilities demanded by civilised populations.

In conclusion I am directed to inform you that the following resolution was passed by my Committee at their meeting held on the 26th May 1923 :—

"Resolved that Government be advised that this Chamber is in favour of the retention of the one-rupee currency note."

From the Vice-Chairman, Madras Chamber of Commerce, dated 6th June 1923.

I am directed to acknowledge the receipt of your letter No. 708 F., dated the 24th April 1923, relative to the above subject, and to make the following observations :—

Although the Re. 1 note issue was introduced as a war measure it has since established itself, and on the reports received from time to time by members of the Chamber its popularity is increasing throughout the Presidency. The convenience of the one-rupee notes is appreciated by the general public and particularly by the trading community, who find them cheaper to move than silver rupees.

If, as appears to be the case, peculiar conditions in India are such that notes of smaller denominations than are usual in some other countries are found to be a convenience to the public, the Chamber does not see any objection in principle to their issue provided a strong backing is maintained.

A currency that can easily be transported from place to place is essential in a widespread country like India, and a note issue meets this, but the previous notes were too big in value for the petty payments required, so heavy consignments of silver had to be sent up-country. The 25-rupee books seem to just meet the need. They are practically Rs. 25 notes that can be split up into rupees if and when required.

Having regard to the facts as stated above, I am directed to advise you that this Chamber is strongly in favour of the continuance of the issue of the one-rupee notes.

From the Honorary Secretary, Narayanganj Chamber of Commerce, Narayanganj, dated 9th June 1923.

In reply to your communication No. 708 F., dated 24th April, I am directed to put before you the views of this Chamber, which represents particularly the raw jute trade, on the above question.

With regard to para. 5 of the Retrenchment Committee's report under heading "Currency," my Committee find it difficult to bring their views to coincide with those expressed therein, namely, "that it is more economical to use silver rupees than paper rupees." The Committee also are unable to agree that no note of such small denomination as the one rupee is issued by other and solvent countries.

2. Whilst recognising that economy, by reduction of establishment, &c., could be effected by the discontinuance of the rupee note, my Committee are strongly of the opinion that the restoration of the silver currency would bring with it much additional expenditure, which would more than counterbalance such saving, and that subsequent economy would be improbable if not impossible.

3. In the jute growing districts of Bengal the rupee note has shown itself to some extent a measure of safety to small traders, and a substantial obstruction to crime (robbery, &c.).

4. Apart from a considerable increase in remittance charges, the silver rupee currency would necessitate additional cost of extra police protection for the coin in transit, and also of means necessary for such conveyance, i.e. boxes, bags, seals, &c. There is little doubt but that the former activities of dacoits in the outlying districts and on the rivers would be quickly revived.

5. In the event of a shortage of silver during the currency of the silver rupee, hoarding would no doubt again become a common practice.

6. Undoubtedly, in the settlement of the whole question, the convenience of the public should be first considered, and in this event my Committee are of opinion that no argument against the continuance of the note currency could be entertained. This Chamber is therefore unanimous in strongly urging its continuance.

From H. Waddington, Esq., Secretary, United Planters' Association of Southern India, Coimbatore, No. 1593, *dated* 9*th June* 1923.

The attention of this Association having been drawn to the fact that you were inviting opinion on the question of discontinuance of the one-rupee notes, I am instructed by the Executive Committee of this Association to advise you that the Planters in Southern India are very strongly in favour of the issue of these notes being continued.

The relative value of the rupee note as gauged by average daily wage with that of the 10*s*. note at Home must be very similar, and provided a sound backing maintained there appears to be no objection to the issue of a note of such a small denomination in a country in which conditions are similar to those in India.

The cooly population in planting districts is now educated to the use of these notes, and no case of attempt at charging a discount on them has come to our knowledge for some years; they are more easily handled than silver and a great convenience as regards transport to both planters and petty traders.

From the Honorary Joint Secretaries, Madras Piece-goods Merchants' Association (Incd.), No. R.C. 25, *dated* 13*th June* 1923.

We have the honour to enclose herewith a copy of the resolution passed at a meeting of the Executive Committee of our Association held on Saturday, the 9th instant, regarding the discontinuance of circulation of one-rupee notes for your consideration.

We have to add that a Mahazar Petition signed by several influential business men of this place has been addressed to us regarding this matter and we enclose a copy of the same herein.

Proceedings of the Executive Committee of the Madras Piece-goods Merchants' Association met at 4 *p.m. on Saturday,* 9*th June* 1923, *under the presidency of M. R. Ry. B. Venkatasubbayya Chetty Garu.*

* * * * *

VII. Read "Mahazar," dated 29th May 1923, from Messrs. K. Haji Khader Batcha Saheb and Company and 15 other members of the Association suggesting the passing of a resolution requesting the Government of India to discontinue one-rupee notes from circulation.

Resolved that in view of the fact that the circulation of Re. 1 notes is a matter of considerable inconvenience to the business and general public and that the

discontinuance of the same would save the Government much expense in printing and paper, and in view of the changed conditions in the bullion market as compared to those that necessitated the issue of these notes of small denominations, this meeting of the Executive Committee of the Madras Piece-goods Merchants Association requests the Government of India to arrange for the discontinuance of these notes.

(Sd.) B. VENKATASUBBAYYA CHETTY,
Chairman.

To the Honorary Joint Secretaries, The Madras Piece-goods Merchants' Association, Madras, dated 29th May 1923.

Dear Sirs,

It is an admitted fact that one-rupee note is a troublesome thing to the public in general and to the merchants in particular. Every one of us feels how inconvenient it is to preserve and count these small notes. With reference to this matter the following telegram from Bombay was published in the *Daily Express*, dated 23rd May 1923, morning edition:—

Bombay, 21st May.

"The Indian Merchants' Chamber favour the discontinuance of the issue of one-rupee note on the ground of additional expenditure involved for maintaining continuous issue and inconvenience for use to public at large.—A. P."

In view of the above circumstances we the undersigned members of the Association request that a similar resolution may be passed in any one of our meetings and submitted to the Imperial Government as soon as possible.

Yours faithfully,

(Sd.) K. HAJI KHADER BADSHA SAHIB & CO.
MD. ABDUL VAHAB SAHIB KHAJA MURTUZA HUSSAIN SAHEB & CO.
H. H. MD. ABDUL AZEEZ SAHIB & CO.
K. A. HAJI ABDUL SHAKOOR SAHIB & CO.
R. T. N. SYED ABDUL WAHAB SHA SAHEB & CO.
SHOP HAJI MADAR SAHIB & CO.
C. S. ABDUL RAZZACK MIAN SAHEB & CO.
V. M. BURANDEEN SAHIB AND SONS.
GULAM RASOOL KHAN SAHEB & CO.
CHITTOOR SOWCAR SYED MIR HUSSAIN SAHEB AND SONS.
V. SRINGARAVELU CHETTY & CO.
K. SHAIK MEERAN SAHIB & CO.
V. MD. AZAM SAHIB & CO.
V. ABDUL KHUDDUS SAHIB & CO.
H. H. MD. ABDUL BASITH SAHIB & CO.

From Sir M. C. T. Muthia Chetty, President, Southern India Chamber of Commerce, Madras, No. 172, dated 16th June 1923.

I have the honour to reply to your letter No. 708 F., dated 24th April 1923, on the above subject, as under:—

My Chamber is in favour of the discontinuance of the one-rupee currency note. The reasons adduced by the Retrenchment Committee for such discontinuance appeal to us strongly. So far as the Chamber is aware, Indian commercial opinion on this side, and also the public generally in this part of the country, do not attach much value to the provision of paper currency of such a small denomination as one rupee. For political considerations as well, it is desirable to abolish the paper rupees and encourage the use of silver rupees in their stead. For ordinary rupee transactions, buyers and sellers would, in our opinion, prefer to handle the time-honoured coin made of the precious metal to the bit of slippery paper known as a rupee note. Nor do the booklets of these notes enhance their popularity in any way. These books are wire-stitched and not well perforated, with the result that it is not easy often to detach individual notes from the booklets. We do not believe that when silver is difficult to obtain these pieces of paper will really be taken as a satisfactory substitute. We do not contemplate a contingency when the Government of India will neither be able to obtain sufficient gold nor sufficient silver for circulation in order to maintain public confidence. But if such a contingency does happen, the

present one-rupee note will by no means be found to be a useful or a safe reserve. In any view of the matter we have no apprehension that the proposed discontinuance of one-rupee notes will cause any inconvenience to the commercial or the general public.

From the Honorary Secretary, Bengal National Chamber of Commerce, Calcutta, No. 495 *M.* 3, *dated* 18*th June* 1923.

I have the honour to acknowledge receipt of your letter No. 708 F., dated the 24th April 1923, on the question of the discontinuation of the one-rupee note. In reply I am instructed by the Committee of the Bengal National Chamber of Commerce to state as follows:—

(1) The Committee have carefully considered the arguments for and against the circulation of one-rupee notes that were adduced at the time when the question of issuing one-rupee notes was discussed in the Imperial Legislative Council. The objection to its introduction was that it would not be acceptable to the masses, who often carry a few rupees about them and have to work in fields where they stand in water and get wet in rain. It was, moreover, urged that these notes would get soiled very soon. But the Government of India overruled the objections and issued one-rupee notes. It was even apprehended that the issue of a note of such small denomination at a time of crisis like the world-war would rouse some suspicion in the public mind. But these notes have been accepted generally by the public.

(2) The Committee are aware that in France, Italy, Egypt, and Ceylon notes of small denomination are in use. But they have noticed that the poorer classes in India prefer the silver coin to the one-rupee note, which is easily soiled or lost. In the moffusil it is difficult to change soiled rupee notes.

(3) On the other hand these notes are of great advantage to commercial people who have to send remittances to rice and jute districts, where they can be remitted at less cost and risk.

(4) Considering the points discussed in the foregoing paragraphs and also keeping in view that the use of these notes is now more or less firmly established throughout the country, the Committee would not recommend the discontinuance of one-rupee notes, but would insist upon metallic reserve against the notes being always kept in India.

From the Secretary, East India Cotton Association, Limited, Bombay, No. 5727 *Gl.* 1, *dated* 25*th June* 1923.

I am directed to acknowledge receipt of your letter No. 708 F., dated the 24th April 1923, and also subsequent reminder No. 942 F., dated 5th June 1923, in which you request the opinion of the Bombay Cotton Trade Association on the question of discontinuance of the one-rupee note. The Bombay Cotton Trade Association having ceased to function, the letter under reference was passed over to my Association, which now controls the cotton trade of Bombay.

2. My Board have considered the question in all its bearings and acquiesce in the views expressed by the Indian Retrenchment Committee in relation thereto and also accept the recommendation made by that Committee that the issue of these notes should be abandoned. My Board are opposed to the continuance of the one-rupee note in so far as the economic aspect of the question is concerned, as they do not see any warrant for its continuance considering the very favourable percentage of metallic backing that the Indian note issue at present possesses.

3. The issue of the small denomination note was an emergency measure devised to meet certain circumstances created by the Great World War. From the point of view of practical utility these notes get soiled in no time in the course of circulation, and the cost of reproducing them for replacement of those withdrawn from circulation is rather heavy and which my Board consider should be avoided.

4. Too much is made of the convenience offered to a certain class of the public by one-rupee notes, especially in book form. My Board do not agree with this and think that the importance given to this convenience is exaggerated. No solvent important country in the world has currency notes of such small value as Re. 1, and my Board are unanimously of the opinion that the Rs. 5 note is the correct minimum value currency note suitable to India in normal times.

5. Against the comparatively small convenience of the class referred to in the paragraph above, my Board would like Government to consider the great loss to the agriculturist and the population in rural areas, who is continuously being mulcted of discounts (small and big) by the village when the one-rupee note (so liable to be soiled and torn and worn out) is offered to be changed into silver and copper or to be accepted against debts. In view of what is said in para. 3 above, it is not feasible to print the one-rupee note on stronger or better paper. And therefore my Board have no hesitation in urging Government to accept the recommendations of the Retrenchment Committee in regard to the discontinuance of the one-rupee currency note.

From the Hon. Mr. W. P. Barton, C.S.I., C.I.E., Resident in Mysore, No. 7312—166, *dated* 12*th September* 1923.

At the instance of the Government of Mysore, I have the honour to forward, for the consideration of the Government of India, a copy of a letter dated the 8th July 1923, addressed to the Mysore Government by the Honorary Secretary to the Combined Mysore Planters' Associations in regard to the desirability of retaining the one-rupee currency note.

Letter from the Honorary Secretary to the Combined Mysore Planters' Associations to the Chief Secretary to Government, dated 8th July 1923.

I have the honour to bring to your notice that at a combined meeting of the South Mysore, North Mysore and Bababudin Planters' Associations held at Chikmagalur on 28th June, a resolution was passed to the effect that the Government of Mysore be approached with the request that it would urge most strongly upon the Government of India the desirability of retaining the one-rupee currency note, the abolition of which is at present under consideration.

In planting districts very large sums in the aggregate are distributed weekly in small individual amounts amongst the labour force for essential purchases in the bazaars, and the one-rupee currency note is the most convenient form to all concerned in which these payments can be made. There is now no prejudice against the note and its abolition would be unnecessary and unprofitable hardship. Even if there are parts of India where there is no demand for the note there appears to be no satisfactory reason why other parts should be denied its circulation.

I therefore have the honour to request that the Government of Mysore will add its powerful influence to the representations already being made and will urge most strongly upon the Government of India the retention of the one-rupee currency note.

From Lala Pannalal Jainy, Honorary Secretary, Delhi Piece-goods Association, dated 21*st September* 1923.

I am directed to invite your attention to your letter No. 708 F., dated the 24th April 1923, which you circularised to various commercial bodies inviting their opinion on the question of discontinuance of the one-rupee note. In the first instance I am directed to protest respectfully though emphatically against the ignoring of my Association in this matter. This Association is the oldest commercial body in Delhi and represents all the important merchants of Delhi, Cawnpore and Amritsar dealing in foreign piece-goods, which is the mainstay of Indian trade. Formerly we used to receive all such communications, sometimes directly from the Government of India and sometimes through the local Government; but in this particular matter both apparently considered it beneath their dignity to consult this Association. I need not emphasise that the inflation of currency which is the natural result of issuing a note of such a small denomination as the one-rupee note affects the importers of piece-goods to a very high degree.

Anyhow my Association has deemed it desirable to place its opinion, though uninvited, at the disposal of the Government of India with all the emphasis at its command against the continuance of the one-rupee note. The public at large has no liking for it. It has been found times out of number that whenever a person has to effect a certain payment while in possession of both the silver rupee as well as the one-rupee note, he would do so by getting rid of the latter first. Hence the rapidity of circulation of the one-rupee note, which has been misunderstood by some to mean that the one-rupee note commands respect at the hands of the public generally. But the truth lies the other way.

Moreover, the one-rupee note is eminently unsuitable for circulation amongst lower classes whose mode of livelihood does not permit them to carry it in safety.

The one-rupee note is regarded by some as insanitary too. They urge that it takes germs from house to house and town to town.

The one-rupee note is doubtless convenient to the educated person. He would certainly prefer to effect payments through the one-rupee note inasmuch as it is lighter. But he too is sometimes embarrassed. He has to pay for necessaries which are commonly procurable not from educated persons like himself but from illiterate persons who are averse to accepting the one-rupee note.

It is an open secret that education has not yet penetrated the Indian masses, who are in the habit of judging the strength and stability of the Government by its currency. The prestige of any Government taking to paper currency of such a small denomination as the one-rupee note suffers according to them.

My Association fully endorses the view that the issue of the one-rupee note should be treated as a reserve for emergencies such as those of war and shortage of silver. "Generally speaking no solvent country, so far as we know, issues a note of such a small denomination as one-rupee . . . . the issue of these notes should" therefore "be abandoned."

III.—Correspondence between the Government of India and the India Office.

Despatch from the Government of India, Finance Department, to the Secretary of State for India, No. 19, dated 16th August 1923.

We have the honour to address Your Lordship on the question of the discontinuance of the one-rupee note. This question was considered by the Inchcape Committee, and in pursuance of the recommendation of that Committee we addressed the principal Chambers of Commerce in India and enclose copies of their replies. Your Lordship will observe that considerable difference of opinion exists as to the desirability of continuing the issue of these low value notes, practically one-half of the more important Chambers being in favour of abolition and one-half in favour of retention. The question is clearly one in which the issue is finely balanced. We have given the most careful consideration to the arguments on both sides, and we are satisfied that the balance of advantage is on the side of discontinuance.

2. On the question of the relative cost of keeping in circulation one-rupee notes as compared with silver rupees over a long period of time, we do not think that any definite conclusion can be reached in view of the indeterminate character of the data. The Inchcape Committee, it is true, quoted certain figures, which had been prepared mainly with the object of illustrating the difficulty of arriving at any definite conclusion on this point, but, as already stated, the data are indeterminate and there are other factors affecting the question of relative cost which were not fully considered by the Committee. There is, for instance, the possibility of a reduction in the present cost of the one-rupee note which might result from the transference of the printing of the notes to India; we understand that Colonel Willis is satisfied that a considerable reduction in cost could be effected by this means. Further, we have to consider the extra cost which, if the one-rupee note were abandoned, would be incurred in remittances of silver coin and in the handling of coin at the Currency Offices and Treasuries. On the other hand, we have to take account of the large saving in establishment which would result in our Currency Offices, where at present the handling and cancellation of over 200 million small value notes in each year are a source of great expense. We have further to remember that the one-rupee note in its booklet form, which is the more popular, largely takes the place of five-rupee and ten-rupee notes, the issue of which is, of course, much more profitable to Government. It has been estimated that not less than 50 per cent. of the one-rupee booklets take the place of higher value notes. From such information as is available we have calculated that the extra cost of remittance and handling of coin may roughly be set off against the savings which would result in establishments at the Currency Offices, and although we attach considerable importance to the argument mentioned above that the one-rupee notes in the booklet form largely take the place of notes of higher values, we are not prepared to say definitely that in the long run the one form of currency is demonstrably more economical than the other. It must, however, be

borne in mind that by the abolition of the one-rupee note we should obtain in the near future an appreciable reduction in our payments for note forms. The one-rupee notes, which represent little more than 6 per cent. of the total note circulation, cost at present not less than £100,000 annually, which is nearly one-third of the total cost of our note forms. They will be replaced only in part by notes of higher values and, consequently, we should be able to count upon a large saving in the cost of our currency note forms for a number of years. This will be an appreciable relief to our finances at the present time. There would be no necessity for further coinage of rupees for some time to come in view of the large stocks of silver coin which we now hold. The gradual absorption of some 6 or 8 crores of silver rupees would still leave us in a very strong position *qua* stocks of silver.

3. Turning to the more general question of policy, we think that great importance should be attached to the fact that it is mainly the upper and middle classes in the towns, the professional and commercial and, to some extent, the industrial classes, who appreciate the convenience of small paper money, while the great mass of the population, especially the agricultural classes and those in outlying districts, unquestionably prefer silver coin. It is not merely that the silver rupee has an intrinsic value of its own and has for generations been regarded as a symbol of the credit of Government, but in the conditions of Indian life, clothing and climate, silver coin is more easy to carry and less liable to destruction and injury from insects and damp. At certain seasons of the year and in certain parts of the country we have evidence that these notes are quoted at a discount as compared with silver rupees. It is true that in Bengal, in connection with the movement of the jute crop, the one-rupee note has rapidly attained popularity, and this probably accounts for the fact that not only the Bengal Chamber of Commerce, but the Bengal National Chamber of Commerce, and the Narayanganj Chamber of Commerce, are in favour of its retention. But here again we must differentiate between the jute merchant and dealer and the actual cultivator. The former classes undoubtedly find it convenient to obtain the necessary funds at the treasuries in the jute districts in the form of ten-rupee and one-rupee notes, with which they can make payments to the cultivators without having to carry about large quantities of silver rupees, but it is open to question whether the cultivators themselves would not prefer to be paid in silver; they accept small paper money mainly because it is the form of currency which is most readily available. This situation arises because the demands for the particular forms of currency required for the jute crop are made to the Currency Department through the banks at the request of large jute firms and dealers. It is therefore not a conclusive proof of the popularity of the one-rupee note in the jute districts that they are so largely used at present in payment for the jute crop. We think that in a matter of this kind it is of great importance to take account of the desires of the great mass of the population, and we believe that in India generally the bulk of the population prefers the silver rupee.

4. One argument which has been used in favour of the retention of the one-rupee note is that it might be difficult to re-establish its use in time of emergency, and that therefore it would be unwise to abandon the advantage which has been already gained. We do not attach great importance to this argument. We think that, should an emergency arise, it should be no more difficult to re-establish the use of small paper money than it was to introduce it in the first instance. It would, of course, be some time before the one-rupee note disappeared entirely from circulation since we do not propose the withdrawal of these notes but merely the discontinuance of their issue. We are much more impressed with the argument which has been used on the other side that in time of emergency the existence of a large quantity of small value notes in the hands of the poorer and more ignorant portion of the population would constitute a danger, as it is just these people who would hasten to convert their small notes into coin at the earliest opportunity. We think, therefore, that while the introduction of the one-rupee note was of some assistance in meeting the silver difficulty during the war, the existence of these notes in circulation, so far from being an advantage, would constitute a positive danger if a similar crisis arose again.

5. The argument against discontinuance which merits most attention is that the existence of these notes leads to thrift and discourages hoarding of coin. If it could be proved that the recipient of one-rupee notes is more disposed to invest them in savings banks, cash certificates, or co-operative credit societies, we would admit that there is considerable force in this argument, but we do not think that this is susceptible of proof; those who desire to hoard can always obtain silver rupees for

the purpose in the present conditions. The recipient of either one-rupee notes or coin, if he wishes to provide a store of value, usually turns his money into silver ornaments for his women folk; and while the tendency to hoarding should be discouraged, we believe that its evils are often exaggerated, since in time of famine these ornaments constitute a reserve which is freely drawn upon. At the present time, although the one-rupee note is in circulation, the large imports of both gold and silver, the bulk of which finds its way automatically into the form of ornaments, do not lead us to the belief that the circulation of small paper money has done much to alter the habits of the people in this respect.

6. Our conclusion is that in a country such as India we stand to gain by giving the ordinary man, who is uneducated and liable to be stampeded, a current money of intrinsic value. As long as we do this, we have one additional security against those insensate panics which sometimes seize the Indian population. We cannot argue from the analogy of countries which have long been accustomed to accept paper money of all descriptions as sufficient security for their transactions, and in which the mass of the population is sufficiently educated to know that the thing which matters is not the character of the currency they handle but the amount of backing which Government keeps against that currency. The currency of India has always been the rupee, and the attempt to substitute paper as the daily money of the country is likely to create on occasions of tension an amount of prejudice out of proportion to the financial results attained.

7. We have, therefore, after mature consideration, decided in favour of discontinuance of the one-rupee note, and we would request Your Lordship to give notice to the Bank of England that after the present indent, which, we understand, will be completed by May 1924, no further orders will be placed for one-rupee notes. Some further saving might be effected by the abandonment of the one-rupee note in its booklet form even before the completion of the present indent, if this can be arranged without undue inconvenience to the Bank of England. It follows from our decision that the proposal to print currency notes in India will not immediately assume a practical form, in view of the fact that the contract with the Bank of England for the notes of higher values does not expire until the year 1929.

Telegram from Secretary of State, No. 3230, *dated 5th September* 1923.

One-rupee note. Please make no public announcement of its discontinuance until I have had time to consider views in your Despatch No. 19, dated 16th August.

From Secretary of State, No. 3634, *dated* 10*th October* 1923.

(Telegraphic.) Financial Despatch No. 19, dated 16th August.

Your proposal for discontinuance of one-rupee note is accepted. If the intention of para. 7 is to assume that a final decision on a matter of such general importance can properly be taken without reference to the Secretary of State in Council, I must take exception to this assumption.

To the Financial Secretary, India Office, No. 1470 *F., dated* 20*th October* 1923.

With reference to the correspondence ending with the Secretary of State's telegram No. 3634, dated the 10th October, on the subject of discontinuance of the one-rupee note, I am directed to say that while it is recognised that the wording of para. 7 of their despatch was open to the interpretation suggested, the Government of India had no intention of anticipating the Secretary of State's final decision on this question and did not contemplate any announcement in India before his final orders were received.

2. The Government of India do not propose to issue an immediate communiqué, as they consider that the most suitable time for any communication to the public will be when the stocks of one-rupee notes have been so far reduced as not to be equal to the public demand. A premature announcement might have an unsettling effect upon the public. It is presumed that the necessary intimation to the Bank of England will now be given by the India Office, and that the question of abandonment of the one-rupee note in its booklet form, even before the completion of the present indent, will be considered by the India Office in consultation with the Bank of England.

APPENDIX 64.

Letter from the Secretary, Punjab Chamber of Commerce, to the Secretary, Royal Commission on Indian Currency and Finance, dated the 23rd February 1926.

With reference to the Memorandum issued by the Royal Commission on Indian Currency and Exchange, I am directed to inform you that the views of the Managing Committee of the Punjab Chamber of Commerce on the points referred to in the questionnaire are as follows :—

Q. (1) Is the time ripe for a solution of problems of Indian currency and exchange by measures for stabilisation of the rupee or otherwise?

(2) In relation to what standard and at what rate should the rupee be stabilised, if at all?

(3) When should any decision as to stabilisation take effect?

A. The Committee of this Chamber are of opinion that measures should be taken to provide India with a sound currency system, a system under which the Indian currency would be linked to gold, the international standard of value, and which would ensure the automatic expansion and contraction of currency in accordance with the requirements of India's trade.

Gold is universally acknowledged to be the best standard of value. It is the standard of value of the United Kingdom, and the ideal standard of all the great Powers, and India's close connection with the United Kingdom makes it desirable that India's currency should be convertible in terms of the same standard. Between gold standard countries instability of prices and fluctuations in the rate of exchange are reduced to a minimum, with currencies regulated by the free import and export of gold.

The people of India have lost confidence in the rupee owing to the wide fluctuations in its gold value, and gold is being hoarded. This wasteful tendency would be combated by restoring confidence in the currency by making it fully convertible into gold.

The currency of India to-day consisting of notes and silver rupees, the latter having an intrinsic value far below their exchange value, has a purchase value determined to a great extent by the quantity of currency in circulation, and the amount of currency in circulation is not regulated automatically in accordance with the country's requirements. It is not freely interchangeable with gold.

The existing currency system exposes the Government to many difficulties and pitfalls. There must be at times a great temptation to over-issue currency, and in any case mistakes are liable to occur. In the past currency has been expanded in response to the demands of external trade. On the other hand, there is at present no satisfactory method of withdrawing currency from circulation.

The existing money cannot serve as a satisfactory standard for deferred payments or as a store of value.

The Committee of this Chamber are of opinion that the currency of India should consist of notes and silver rupees convertible into free gold bullion. They consider, however, that it would be unwise to stabilise the rupee with gold at any fixed rate at the present time. Monetary conditions throughout the world are still unsettled. The principal countries of the world have not all reconstructed their currency systems. England has only recently returned to the gold standard. It is possible gold prices will fall in the near future. If the gold value of the rupee were fixed to-day at its present market rate and gold appreciates, there would be a very great demand for gold in India, which it would be difficult to meet, and deflation would be necessary. Possibly gold will appreciate until the rupee approaches the 1*s*. 4*d*. level. In the opinion of the Committee, further time should be allowed for gold prices to become normal, and for a sufficient stock of gold to be accumulated. Government should take advantage of the present rate to accumulate more gold by selling council drafts at approximately 1*s*. 6*d*. The Committee are of opinion that when gold prices can be considered to be normal, and the gold reserve is sufficiently strong, a gold standard system should be established in India, the rupee being fixed in its relation to gold at a rate in the neighbourhood of the market rate at that time.

Q. What is the comparative importance of stability in internal prices and in foreign exchange?

A. Stability in internal prices benefits the country as a whole, and should be the first consideration. Between countries in which prices are stable there can be no great fluctuations in exchange. In pre-war days, in most civilised countries, internal prices were gold prices, and as gold could be moved without hindrance, the only fluctuations in exchange between such countries could normally only be within gold points. It is only since currencies have become divorced from gold and their buying powers have varied so greatly, that there have been such large fluctuations in rates of exchange. There can be no great fluctuations in exchange between countries which stabilise their money with the same stable commodity.

Q. What measures should be adopted to maintain the rupee at the rate selected? Should the obligation be undertaken to give gold for rupees?

A. The Committee of this Chamber are of opinion that the gold standard system which has been evolved in England should be introduced into India. Under the system in England, Bank of England notes and Government currency notes are the only form of full legal tender, and the gold value of the currency is maintained by a statutory obligation under which the Bank of England is obliged to buy gold in unlimited quantities at the rate of £3 17*s.* 9*d.* per standard ounce, and to sell gold in bars containing 400 ounces Troy of fine gold at £3 17*s.* 10½*d.* The Committee consider that this method should be adopted to stabilise India's currency, by Government undertaking to buy and sell gold bullion in exchange for notes and rupees at fixed rates.

Q. What should be the policy as to the minting of gold in India and the use of gold as currency?

A. The Committee are not in favour of a gold currency for India, and consider that the British sovereign should cease to be legal tender. A preponderating use of gold for internal transactions is not a characteristic of a single one of the great Powers of the world, all of whom use cheques or notes for internal payments. Until the banking system has been developed to a very much greater extent in India the rupee must take the place of cheques. Owing to the poverty of the bulk of the people of India, most of the internal transactions will continue for a long time to involve small amounts for which gold coins will not be suitable. For the majority of the people of India a gold coinage would be quite useless. All the evidence goes to show that, while there is a big demand for gold bullion, there is only a small demand for gold as currency. Gold in the pockets of the people, or passing from hand to hand, will not help in the stabilisation of the currency. It is gold in reserve, as backing both for the note issue and for the token coins, that is required. A gold currency would tend to create a demand for gold, and the use of gold for internal payments is unnecessary, and would yield no good results. The standard of value should be gold of a particular weight and fineness defined by law, but it need not necessarily be in the form of a gold coin.

Q. What should be the composition, size, location, and employment of a gold standard reserve?

A. The Committee have expressed the opinion that it would be unwise to fix the ratio between the rupee and gold until gold prices show signs of real stability and a sufficient reserve of gold has been accumulated. Until the time is propitious, therefore, they advocate that the gold exchange standard system should be followed, the gold standard reserve being retained as at present constituted. If a full gold standard is adopted the Committee consider that the gold standard reserve and paper currency reserve should be amalgamated and located in India to ensure the convertibility into gold of the rupee in India. Credits being maintained in London to be utilised in times of weak exchange. With regard to the management and investment of the gold standard reserve and paper currency reserve the Committee are of opinion that the safe custody, management, and investment of these funds should be in the hands of the Imperial Bank of India. The ultimate control, however, should remain with the Government of India.

Q. Who should be charged with the control of the note issue and on what principles? Should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?

A. The Committee are of opinion that the transfer of the control and management of the Currency Department in India to the Imperial Bank of India would result in advantages sufficiently solid to make the transfer desirable. Dual control would be

eliminated, and banking and currency interests co-ordinated. A fresh agreement between the Government of India and the Imperial Bank of India would be necessary in which the safeguards to insure the correct functioning of the new Department should be provided for. The Government of India must be responsible ultimately for the support of the gold exchange standard system and for the correct functioning of the Currency Department.

Q. What should be the facilities for the encashment of notes?

A. The Committee are satisfied as to the present facilities for the encashment of notes.

Q. What should be the policy as to the issue of notes of small values?

A. Notes of a lower denomination than Rs. 5 should not be issued, silver being the most suitable medium for smaller sums.

Q. Should any change be made in the existing methods for the purchase of silver?

A. Yes; Government should be in a position to purchase silver in the cheapest market.

Q. By what method should the remittance operations of the Government of India be conducted? Should they be managed by the Imperial Bank of India?

A. The Chamber of Commerce, Bombay, have expressed the following views on the subject, and the Committee of this Chamber are in agreement therewith:—

"Inasmuch as the Government of India must be responsible ultimately for the support of the gold exchange standard and for all book profits and losses on exchange in connection with Government remittances, my Committee are of opinion that Government remittances should remain under Government control. At the same time they feel that it would be impossible for the Imperial Bank of India to manage the Currency Department in India with any degree of efficiency of confidence unless it were permitted not only to operate the high and low gold points under the gold exchange standard, but also to exercise a fair measure of discretion in the remittance of Government funds between the gold points. The exercise of these functions by the Imperial Bank of India would tend, in their opinion, to give a very desirable continuity of control; and would enable the commercial community to keep in closer touch with the Currency Department. My Committee feel that it would not be impossible for the Government of India to maintain the ultimate control which in their opinion is desirable, and at the same time not to interfere with the Imperial Bank of India in the execution of its duties, and they would like to see the remittance business of the Government of India managed by the Imperial Bank of India under these conditions.

"But, whether the Currency Department is handed over to the Imperial Bank of India or whether Government continues to manage it as at present, my Committee are strongly of opinion that Government remittances should be effected by means of public tender, either in London or in India, rather than by private purchases of sterling, as the former method is more equitable and promotes a greater feeling of confidence in the minds of the public."

The Committee are of opinion that the Government of India should maintain the ultimate control in all matters affecting the country's finances. The gold standard and paper currency reserves, Currency Department and Government remittance operations should all be under the control of the Government.

APPENDIX 65.

Letter No. 20/10, dated 9th February 1926, from the Financial Secretary to the High Commissioner for Iraq to the Secretary to the Government of India, Finance Department, Delhi.

I am directed by His Excellency the Acting High Commissioner to address you on the matter of the Royal Indian Currency Commission, which is understood to be now enquiring into the whole question of the currency of the Government of India.

2. The Iraq Government is deeply interested in this question owing to the fact that Indian currency is the present official currency throughout Iraq, and also because of the intimate trade connections of the country with India. The Government, therefore, has approached His Excellency with the request that its views on the matters likely to be considered by the Commission may be put before it.

3. His Excellency realises that the Commission has been appointed with the object of considering the currency problem of the Government of India in the interests of that Government, but it is not unlikely that what is found by the Commission to be in the interests of the Government of India may equally be in the interests of the Government of Iraq, and it is considered possible that the Commission would take into account recommendations or suggestions which would not be in conflict with that general principle. I therefore enclose a copy of a resolution which was passed by a Committee formed under the auspices of the Ministry of Finance in Iraq to consider and advise as to the action to be taken in this connection. Accompanying this is a memorandum from the Minister himself in which are set out the views of the Iraq Government on the matter, and His Excellency the Acting High Commissioner would be very grateful if these documents could be placed before the Royal Indian Currency Commission for consideration at an appropriate time.

Memorandum by the Minister of Finance, Iraq.

I enclose herewith copy of the resolution which was passed by a Committee held in the Ministry of Finance to consider and advise as to the action to be taken in the interest of Iraq in connection with the Indian Currency Commission.

The Government of Iraq is deeply interested in the question of Indian currency problems owing to its temporary use of Indian currency and also to its intimate trade connections with India, and considers that it is its duty to place its views before the Royal Indian Currency Commission.

It is realised that this Commission was appointed with the object of considering the Indian currency problems in the interests of India, yet it may be that what is found by the Commission to be in the interest of India may be equally in the interest of Iraq, and that it is not unlikely that the Commission would take into account recommendations or suggestions which would not be in conflict with those interests.

Two main problems are at stake: (1) the stabilisation of the rupee exchange, and (2) the rate of the rupee with regard to the sterling.

The first problem is highly important. It affects Iraq as importer, exporter, and also as a field for foreign capital. The violent fluctuations in the rupee rate of exchange were seriously detrimental to the economic conditions of the country and created an abnormal situation which could only be justified by exceptional post-war events. Normal conditions would require a stable exchange, and the relatively fixed rate of the last two years appears to command itself for the future.

The second important problem which calls for a very serious consideration is the question of the rupee rate of exchange. Various factors would command a high rate, but it is considered that a too high rate would encourage imports to the detriment of export in a country living on her own means, and that it would ultimately result in the ruin of the country.

Under the circumstances the Iraq Government suggest a rate of exchange which would not exceed 1*s*. 6*d*., and I shall be greatly obliged if these views are placed before the Royal Indian Commission for their consideration.

Resolution of Committee.

The Committee consider that the Iraq Government should place its views before the Royal Indian Currency Commission, on the ground of its interest in the problems placed before the Commission owing, first, to Iraq's intimate trade connections with India, and, second, to its temporary use of Indian currency.

The public in general, and the trading community in particular, greatly suffered in the last seven years through unstable rupee exchange, specially in the period of its violent fluctuations. Both as importer and as exporter Iraq favours effective stability in the Indian currency (i.e. a fixed ratio to sterling) to be introduced as early as possible.

As regards the stabilised rate of exchange, various financial and economic considerations plead in favour of a high rupee, such as the import trade of the country with its large adverse balance, Iraq Government's external liability, &c. On the other hand, the considerations in favour of a low rate are scarcely less important and include the development of export trade and the encouragement of influx of foreign capital. Under the circumstances, the Committee recommend a rate of exchange which would not exceed 1*s*. 6*d*. But they wish to make it clear that they regard the establishment of stability in relation to sterling as an essential requirement, and the arguments for and against any particular exchange-rate as of secondary importance.

APPENDIX 66.

Letter from the Secretary to the Government of Madras, Finance Department, to the Joint Secretary to the Royal Commission on Indian Currency and Finance, No. 223, dated 16th March 1926.

I am directed to refer to your letter No. 240, dated Delhi, the 26th November 1925, in which you enquired whether the Government of Madras desire to express any views, including those of the Honourable Ministers, on the points referred to in the Memorandum indicating the main questions which would come under the consideration of the Royal Commission on Indian Currency and Finance.

2. In reply, I am to say that the Government of Madras have very carefully considered the subject-matter of the Memorandum. It is largely concerned with technical questions of a complicated and controversial character, with which, as a Local Government, they are not directly concerned and are seldom brought into contact. They feel, further, that such material and information as is at their disposal is inadequate to enable them to formulate any definite conclusions, and they therefore do not propose to submit any written memorandum or evidence on these questions.

3. I am to say, however, that, in one respect, any policy adopted as a result of the recommendations of the Royal Commission may vitally affect them as a Local Government. The alteration in the level of prices which resulted from the war subjected their finances to a strain from which they have not yet fully recovered. The necessity for a revision of salaries was becoming evident even before the outbreak of the war, and during its course cases in which relief was most urgently called for were met by a series of expedients which were purely temporary in character. On the conclusion of the war a comprehensive measure of revision had to be undertaken, and the burdens thus imposed on the revenues of the Presidency were so great as to neutralise any benefit it received from the financial settlement in connection with the Reforms. The full liabilities which this revision of salaries imposed have not even now been liquidated, and only the fact that the considerable measure of stability in prices which has prevailed of late has rendered any further general measure of revision unnecessary has enabled the Madras Government to meet the annual increase in its establishment and pension charges. If, as a result of changes in currency policy, a further rise in prices were to render a revision of salaries again necessary, the revenues of the Local Government would become inadequate to the strain, and the levying of additional taxation for improving the salaries of Government servants at the cost of the taxpayer, who would himself be affected by the rise in prices, would cause widespread discontent. This would be accompanied by a new period of readjustment of agricultural and industrial wages with all the dangers and unsettlement which that involves. The Madras Government trust, therefore, that theoretical arguments will not be allowed to obscure a practical issue to which they attach great importance.

4. I am to add that the Honourable the Ministers concur with para. 2 of this letter.

APPENDIX 67.

List of Witnesses from whom written statements (not printed herewith) have been received.

1. Mr. A. J. Saunders, M.A., Ph.D., Professor of Economics, American College, Madura.
2. Mr. K. M. Purkayastha, Secretary, Indian Mining Federation, Calcutta.
3. Mr. B. K. Bhargava, Military Audit Officer, Jaipur State.
4. Mr. Ardeshir R. Subedar, Dubash and Government Contractor, Bombay.
5. The Hon. Secretary, Marwari Chamber of Commerce, Calcutta.
6. Lieut.-Colonel W. C. Ross, I.M.S., Director of Public Health, Bihar and Orissa.
7. Mr. Begraj Ramsarup, Rewari, Punjab.
8. Mr. F. Larkworthy, C.O.R., Chairman of the Ionian Bank, Ltd.
9. Mr. Jwala Prasad Singhal, M.A., D.A.V. College, Dehra Dun.
10. Mr. M. M. Roy, M.Sc., Calcutta.
11. Mr. H. Sinha, Lecturer, Calcutta University.
12. Native Piece-Goods Merchants' Association, Bombay.
13. Mr. E. A. Phillips, M.I.C.E., M.I.S.E., (Retired Superintending Engineer of the Pegu Circle, Burma), Brighton.

14. Native Share and Stock Brokers' Association, Bombay.
15. A. S. Bose & Bros., Rangoon.
16. Mr. A. D. Shroff, Bombay.
17. Dr. Prabhakar S. Shilotri, M.A., Ph.D., Chairman and Managing Director of the Shilotri Bank, Ltd., Bombay.
18. The Deccan Sabha, Poona.
19. The Indian Institute of Political and Social Science, Bombay.
20. Sir Henry Macnaghten (of Messrs. Wallace & Co.), Sheriff of Bombay.
21. Mr. S. T. Sadasivan, Manager, Central Bank of India, Ltd., Rangoon.
22. The Madura-Ramnad Chamber of Commerce, Madura.
23. Mr. B. G. Sapre, M.A., Professor of History and Economics, Willingdon College, Sangli.
24. Mr. Lakshman B. Jagalpure, Retired Mamlatdar, Ahmednagar.
25. Mr. M. D. Altekar, Bombay.
26. The United Provinces Trades Association, Mussoorie.
27. Mr. G. S. Marathey, Poona.
28. Mr. A. R. Subedar, Dubash and Government Contractor, Bombay.
29. Mr. S. G. Beri, M.A., and Mr. Summant K. Muranjan, M.A., Professors, Karnatak College, Dharwar.
30. Mr. T. G. Mascarenhas, National Bank of India, Ltd., Bombay.
31. Mr. S. Subbarama Aiyar, M.A., Senior Lecturer in Economics, Madras Christian College.
32. Mr. Vithaldas K. Sanjanvala, Timber Merchant, Umbargaon.
33. Mr. Govind H. Keskar, Poona.
34. Mr. P. M. Rao, Deputy Accountant-General, Posts and Telegraphs, Madras.
35. Mr. J. N. Bhargava, Imperial Bank of India, Peshawar.
36. The Buyers and Shippers' Chamber, Karachi.
37. Mr. S. Gopalaswami, Labour Investigator, Labour Statistics Bureau, Rangoon.
38. Rai Pramatha Nath Mulluk Bahadur, Calcutta.
39. Mr. H. E. Moon, late Manager of the Hongkong and Shanghai Banking Corporation.
40. Mr. U. N. Ball, M.A., Professor, Dyal Singh College, Lahore.
41. Mr. A. K. Sarkar, Lecturer, Calcutta University, and Professor of Economics, Hughli College, Chinsurah.
42. Mr. Nalini Ranjan Sarker, M.L.C., Manager of the Hindustan Co-operative Insurance Society, Ltd.
43. Mr. S. Srikantaiyer, Bombay.
44. Mr. K. L. Bawachakar, Pleader, Sholupur.
45. The Marwari Association, Calcutta.
46. Mr. J. C. Das Gupta, Professor of Economics, Krishnath College, Berhampore.
47. The Indian Mining Federation, Calcutta.
48. Mr. E. L. Price, C.I.E., O.B.E., Karachi.
49. Rao Bahadur K. V. Rangaswami Aiyangar, Principal and Senior Professor of History and Economics, H.H. the Maharaja's College of Arts, Trivandrum.
50. Mr. J. C. Mitra, F.S.S., Vice-Principal, Vidyasagar College, Calcutta.
51. Mr. K. B. Saha, Lecturer in Economics, Dacca University.
52. Mr. B. T. Thakur, M.A., Chief Agent, The Punjab Branches, Central Bank of India, Ltd.
53. Mr. Hirendra Lal Dey, Lecturer in Economics, Lucknow University.
54. Mr. S. K. Sarma, B.A., B.L., Pleader, Trichinopoly.
55. Raja Janoki Nath Roy, 102, Sova Bazar Street, Calcutta.
56. Mr. G. N. Shivpuri, The Bank of Behar, Ltd., Bankipur.
57. Mr. B. N. Chatterji and Mr. Daya Shankar Dubey, the Lucknow University.
58. The Mysore Chamber of Commerce, Bangalore.
59. Mr. T. V. Srinivasa Iyengar, High Court Vakil, Kumbakonam, Madras.
60. Mr. B. C. Divecha, Thana.
61. The British India Peoples' Association, Calcutta.
62. Mr. Kaikobad Cowasjee Dinshaw, Aden.
63. Mr. H. R. Scott, (Exchange Broker, Madras, 1896-1918), London.

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

APPENDIX 68.

Memorandum on "The Responsibilities of the Secretary of State for India in Council in relation to Indian Finance, Exchange and Currency," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office, and Mr. V. Dawson, C.I.E., Public and Judicial Department, India Office.

In law the Secretary of State in Council is responsible to Parliament for "all acts, operations and concerns which relate to the government or revenues of India, and all grants of salaries, gratuities and allowances, and all other payments and charges, out of or on the revenues of India"; and he is consequently in possession of power to "superintend, direct, and control" those matters. (Government of India Act, section 2 (2).)

2. This all-embracing power of superintendence, direction, and control has been legally affected by the Act of 1919 only in relation to those provincial subjects which have been transferred to the control of Governors acting with Ministers. In respect of these subjects there has been a statutory divestment of the powers of superintendence, direction, and control, which can now only be exercised in relation to transferred subjects for specified and strictly limited purposes. The provincial transferred subjects do not include Currency and Exchange, nor any matters connected therewith. In respect of those two subjects, therefore, in common with all other central subjects and with all reserved provincial subjects, the Secretary of State remains in law ultimately responsible to Parliament for the policy pursued, and can compel the Government of India to carry out any instructions or policy which he, acting on behalf of His Majesty's Government or Parliament, may lay down. (Government of India Act, sections 2 and 33)

3. The Government of India Act contains no provisions relating specifically to Currency and Exchange, except in so far as the provisions of section 67 (2) affect these matters by reason of their inclusion in the comprehensive expression "public debt or public revenues of India" contained in that subsection. Besides the general provisions already referred to, the Act defines the expression "revenues of India," enacts that these revenues "shall be applied for the purposes of the government of India alone," specifying what some of those purposes are (section 20), requires the sanction of the Secretary of State in Council to all grants or appropriations of any part of them (section 21), provides (sections 23, 24, 25, 26, and 27) that all parts of the revenues of India remitted to or accruing in the United Kingdom are to be paid into the Bank of England on behalf of the Secretary of State in Council, and prescribes the procedure for drawing on the Bank of England, for audit of the Home Accounts and for an annual presentation of accounts to Parliament.

4. The only other financial power of the Secretary of State in Council derived from statute law that needs to be considered in this connection is the power to raise loans in the United Kingdom. This function can be performed on behalf of the Government of India only by the Secretary of State in Council, and when performed is subject to the specific authority of Parliament (see the series of East India Loans Acts) in each case—or rather each specific loan which is raised must be covered by the authority of Parliament conveyed by Act to raise a specified sum of money for a specified purpose. The Stocks issued in pursuance of the East India Loans Acts enjoy the status of Trustee securities, and the amount of such sterling securities, the capital and interest of which is charged on the revenues of India, is, at the present time, about £240,000,000.

5. It should also be mentioned that the Secretary of State in Council is responsible for obligations incurred by way of the guarantee of certain securities issued by some of the Indian Railway Companies, pensions to retired officials, &c. The due discharge of these commitments has always led the Secretary of State to maintain a close interest in respect of all major questions of Indian finance, such as the budgetary

arrangements of the Central Government, the capital programme of that Government, the exchange and the currency. As the Secretary of State is responsible for meeting his obligations in this country, he has always recognised his responsibility for maintaining in this country adequate balances for the purpose.

6. In terms the Local Government (Borrowing) Rules (vide pp. 263–4 of Rules under the Government of India Act) imply that it is open to a provincial Government, acting under section 30 (1A) of the Government of India Act, itself to raise loans outside India (and therefore presumably in the United Kingdom) if the sanction of the Secretary of State in Council is first obtained. But as the Secretary of State in Council himself cannot raise loans outside India without Parliamentary sanction (as just explained), these rules are probably, by themselves, insufficient to enable a provincial Government to exercise this power. It will be observed that the rules in question give control over the borrowing in India by local Governments, but that this control is in form vested in the Government of India, and not in the Secretary of State.

7. The foregoing is a brief statement of the strict legal position as regards the Secretary of State's responsibilities for Indian finance, including currency and exchange, which can be still more briefly summarised by the statement that, subject to the approval of Parliament, on whose behalf he acts, his powers are unlimited, and that the Government of India are bound to carry out any instructions they may receive from him on the subject. But although the amending Act of 1919 made no concrete change in this respect in the relations between the Secretary of State and the Government of India and in their respective powers and duties, account has to be taken, in estimating the present character in practice of these relations, powers, and duties, of the general bearing of other provisions of the Government of India Act which were inserted in it by the Act of 1919, and of the policy underlying the latter Act.

The general aim of the Act of 1919, as set out in the Preamble, was "the gradual development by successive stages of self-governing institutions, with a view to the progressive realisation of responsible government in British India as an integral part of the Empire." One of the steps taken by the Act of 1919 towards the realisation of this object was the creation, in association with the Central Executive Government, of a bicameral Legislature containing in respect of its lower chamber an overwhelming, and in respect of its upper chamber a small, majority of non-official elected members, and endowed with all the ordinary powers and attributes of a legislative body, including power to vote and withhold supply. It is true that the Act contains provisions (sections 67 (2) and (2A), 67A (3), (7) and (8), and 67B), which enable the executive, notwithstanding an adverse vote, to make its decisions effective or which place limitations on the powers of the Legislature; it is also true that the Joint Select Committee in their Report on the Bill of 1919 expressed the following opinion in respect of these powers:—

> "It is not within the scope of the Bill to introduce at the present stage any measure of responsible government into the central administration, and a power must be reserved to the Governor-General in Council of treating as sanctioned any expenditure which the Assembly may have refused to vote, if he considers the expenditure to be necessary for the fulfilment of his responsibilities for the good government of the country. It should be understood from the beginning that this power of the Governor-General in Council is real, and that it is meant to be used if and when necessary."

At the same time it is obvious—and this the Joint Select Committee recognised in their important observations on clause 33 of the Bill (copy appended)—that the successful working of a transitional constitution such as that contained in the present Government of India Act cannot be looked for unless both parties to the contract are prepared to co-operate in a spirit of give and take, and that this involves on the part of the Government of India and of His Majesty's Government a constant endeavour to conform their policy, to the utmost extent which is compatible with their obligations and responsibilities for the welfare of the country, to Indian public opinion as constitutionally expressed in the Legislature. The Joint Select Committee, in their observations just referred to, endeavoured to secure these conditions by suggesting the adoption of a convention of non-interference by the Secretary of State in certain defined circumstances. The difficulty of reducing to rule of thumb the regulation of the relations between the Indian Legislature, the Government of India, and the Secretary of State, without at the same time impairing or destroying the legal responsibility which still exists on the part of Parliament for the good

government of India, will be apparent; but it may be said generally that since the passage of the Government of India Act in 1919 every endeavour has been made to bring the relations between the Secretary of State in Council on the one hand and the Government of India and the Central Legislature on the other into accord with the principles underlying the Joint Select Committee's recommendation. How far the Secretary of State and the Government of India would be prepared in any given case to surrender their judgment to that of the Indian Legislature in the event of difference of opinion must necessarily remain a question for decision on each case as it arises, with regard to its intrinsic importance, and to the nature and scope of its consequences to India itself, to the United Kingdom, to the Empire, and to foreign relations. And this is all that can be predicated in general terms of the attitude likely to be adopted by the Secretary of State towards proposals for changes in the policy regulating, and the methods of control over, Indian finance, currency and exchange, except to observe that certain changes in these matters might be of such a character as to alter materially, if adopted, the relationship between the Secretary of State and the Government of India, as defined in the Government of India Act.

EXTRACT FROM THE REPORT of the Joint Select Committee of the House of Lords and the House of Commons appointed to consider the Government of India Bill.

* * * * *

Clause 33.—The Committee have given most careful consideration to the relations of the Secretary of State with the Government of India, and through it with the provincial governments. In the relations of the Secretary of State with the Governor-General in Council the Committee are not of opinion that any statutory change can be made, so long as the Governor-General remains responsible to Parliament; but in practice the conventions which now govern these relations may wisely be modified to meet fresh circumstances caused by the creation of a Legislative Assembly with a large elected majority. In the exercise of his responsibility to Parliament, which he cannot delegate to anyone else, the Secretary of State may reasonably consider that only in exceptional circumstances should he be called upon to intervene in matters of purely Indian interest where the Government and the Legislature of India are in agreement.

This examination of the general proposition leads inevitably to the consideration of one special case of non-intervention. Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear. India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective. A satisfactory solution of the question can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by statute without limiting the ultimate power of Parliament to control the administration of India, and without limiting the power of veto which rests in the Crown; and neither of these limitations finds a place in any of the Statutes in the British Empire. It can only therefore be assured by an acknowledgment of a convention. Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party.

The relations of the Secretary of State and of the Government of India with provincial governments should, in the Committee's judgment, be regulated by similar principles, so far as the reserved subjects are concerned. It follows, therefore, that in purely provincial matters, which are reserved, where the provincial government and legislature are in agreement, their view should ordinarily be allowed to prevail, though it is necessary to bear in mind the fact that some reserved subjects do cover matters in which the central government is closely concerned. Over transferred

subjects, on the other hand, the control of the Governor-General in Council, and thus of the Secretary of State, should be restricted in future within the narrowest possible limits, which will be defined by rules under sub-clause 3 of clause 1 of the Bill.

Rules under this clause will be subsidiary legislation of sufficient moment to justify their being brought especially to the notice of Parliament. The Secretary of State might conveniently discuss them with the Standing Committee whose creation has been recommended in this Report; and Parliament would no doubt consider the opinion of this body when the rules come, as it is proposed that they should do, for acceptance by positive resolution in both Houses. The same procedure is recommended by the Committee for adoption in the case of rules of special or novel importance under other clauses of the Bill. It must be for the Secretary of State to decide which of the many rules that will fall to be drafted by the Government of India can be sufficiently dealt with by the ordinary process of lying on the table of Parliament for a certain number of days. In deciding this point, however, he may naturally have recourse to the advice of the Standing Committee, should it happen to be in session, and obtain their assistance in determining which rules deserve to be made the subject of the more formal procedure by positive resolution.

* * * * *

APPENDIX 69.

Memorandum No. 1, on "Indian Currency Developments since 1920," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

1. The main facts of the Indian currency system as it existed before the war, and the dislocation of the system arising out of the war are described in the Report of the Indian Exchange and Currency Committee, 1919 (the Babington-Smith Committee).* In order to bring the record up to date, it is proposed to review the main developments of Indian currency policy since the date when this Report was presented.

Report of Babington-Smith Committee.

2. The cardinal recommendations of the Babington-Smith Committee's Report were :—

(1) That the silver rupee, unchanged in weight and fineness, should remain unlimited legal tender and should have a fixed exchange value, expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, that is, one-tenth of the gold content of the sovereign.

(2) That the sovereign, which had been rated by the Indian Coinage Act, 1906, at Rs. 15, should be a legal tender in India at the ratio of Rs. 10 to one sovereign.

The principle of these recommendations was accepted by the Secretary of State in Council, and, as a first step to giving effect to them, a notice was issued on 2nd February 1920 by the Government of India, notifying the fixation of the acquisition rate for gold imported into India, which had previously been subject to variation from time to time (*vide* para. 26 of Report), at Rs. 10 for each sovereign tendered for import, or one rupee for 11·30016 grains of fine gold. The text of this notification and the announcement on general policy issued by the Secretary of State are attached to this memorandum (Appendix I).

Rise in exchange on issue of Report.

Prior to the issue of this announcement, the official rate of exchange, *i.e.*, the rate at which the Secretary of State was prepared to sell Immediate Telegraphic Transfers on India, was 2*s.* 4*d.*, but, with the announcement of the adoption of the main recommendation of the Currency Committee, exchange rose on 2nd February to 2*s.* 8½*d.*, which was about 1*d.* below the theoretical parity of the 2*s.* gold rupee as measured by the London–New York exchange.

Economic conditions, 1919–20: end of post-war boom.

3. Economic conditions in 1919 were influenced by the unusual circumstances arising out of the termination of the war. World prices ruled high and India was able to obtain good value for her exports, which were in keen demand. The sharp

* References in this Memorandum and in Memorandum No. 2 to the "Report" should, unless otherwise stated, be taken as referring to the Report of the Babington-Smith Committee. By the Report is meant the Report of the majority of the Committee, which comprised all the members except Mr. (now Sir D.) Dalal.

advance of exchange had not apparently prejudiced Indian trade, and the year 1919–20 recorded a favourable balance in respect of India's private trade in merchandise of Rs. 122 crores—a record figure at the time (*see* statistics in Appendix II).

Conditions changed entirely in the course of 1920, when it began to be realised that the boom in the previous year was based on unsubstantial foundations and measures were taken to arrest inflation. In November 1919 the Bank of England discount rate was raised to 6 per cent., and in April 1920 to 7 per cent., and about the same time the United States authorities brought the creation of credit within stricter control. The rise in prices was stayed and the slump, which reached such serious proportions later, began.

Reversal of normal Indian trade current.

India soon felt the change in economic conditions. The value of her exports declined from Rs. 330 crores in 1919–20 to Rs. 258 crores in 1920–21. The stream of imports, on the contrary, increased in the same period from Rs. 208 crores to Rs. 336 crores (*see* figures in Appendix II). This last tendency was to be expected, as during the war India had been starved of her normal imports of manufactured goods, and the high exchange had acted as an incentive to the giving of large orders which were now in process of execution. These influences placed a heavy strain on the Indian exchange, which official policy was directed to maintaining at 2*s.* (gold). The difficulties were increased by the trend which the sterling-dollar exchange was now taking. When the Babington-Smith Committee's Report was signed on 22nd December 1919, the London-New York exchange, which had been "unpegged" in March 1919, stood at \$3.80 per £, on which basis the sterling equivalent of the 2*s.* gold rupee was 2*s.* $6\frac{3}{4}$*d.* By 2nd February 1920, when effect was given to the main proposal of the Committee, the London-New York rate had dropped to \$3.47½ per £ and two days later to \$3.25, resulting in the theoretical parity of the rupee being almost 3*s.*

4. The great prosperity which Indian trade had enjoyed during the war period had led to the accumulation of large profits which were waiting in India for a suitable opportunity for remittance to the United Kingdom. The decision of the Government regarding the future level of exchange had thus been awaited with much eagerness, and the announcement of Government's decision, associated, as it turned out to be, with a weak sterling-dollar exchange and a correspondingly high sterling parity of the rupee, was the signal for a vigorous demand for homeward remittance. There had been a certain demand for Reverse Councils (that is, drafts on London) in January 1920, when the official rate of exchange was 2*s.* 4*d.*, on the basis of which rate drafts on London were sold by the Government of India to the amount of 5,394,000*l.* The demand, however, became far more intense after the announcement of the new exchange policy. Government was in possession of large supplies of sterling, which it was prepared to use with the object of making the new exchange policy effective, and reverse drafts were sold weekly in India from 5th February 1920 to 28th September 1920, up to a total amount approximately of 50,000,000*l.* But during this period the supply of exchange offered was not equal to the demand and the market rate for the rupee gradually fell away. During the earlier period when reverse drafts were being sold, the price was based on the theoretic 2*s.* gold parity for the rupee as measured by the sterling-dollar exchange, a basis that involved offers at a rate substantially in excess of 2*s.* sterling. For a considerable period the rate so fixed was higher than the current market rate, but later the attempt to hold the rate at 2*s.* gold was abandoned, and from 24th June 1920 the price of reverse drafts was based on 2*s.* sterling (*see* para. 2 of official announcement, Appendix III). In September 1920 it was decided to suspend efforts to maintain the exchange value of the rupee by the sale of drafts on London (*see* Appendix IV), and from that time to the present date the sterling resources of Government have not been further drawn upon with this object.

Break in rupee exchange.

The decision of September 1920 signified the failure of Government to contract Indian currency to the extent required to maintain the exchange. This contraction to have been completely successful would have involved the reduction of the Indian price level in conformity with the fall in world prices. The requisite adjustment had now to be effected by the decline in the exchange value of the rupee. It is due to the Babington-Smith Committee to point out that the possibility of developments which might lead to the breakdown of the 2*s.* gold rupee was not unforeseen by them. In para. 51 of their Report the Committee, after expressing the view that a high exchange was not likely to inflict any permanent injury on Indian trade, noted that if contrary to their expectation a great and rapid fall in world prices were to

take place, a new element of disturbance would be introduced, and that circumstances might arise which would endanger the maintenance of exchange at the level proposed. In that event the Committee recognised that it would be necessary to consider the whole problem afresh. The fall in prices in 1920, which occurred so soon after the issue of the Committee's Report, was the main cause for the failure of their scheme for the Indian currency.

Removal of control over private trade in precious metals.

5. It will be convenient at this stage to refer to certain other developments of interest that took place in 1920. War conditions had led to a stringent control over the import and export of silver and gold to and from India, and one of the principal objects to be attained by the fixation of the rupee in terms of gold was to liberate the precious metals from official control. Restrictions on the private import of silver were withdrawn on 2nd February 1920, when the new exchange policy was announced. As regards export restrictions, the sale of Reverse Councils, coupled with the change in Indian economic conditions, led to a return of rupees to Government, whose holding of silver coin rose from Rs. 29⅔ crores on 1st January 1920 to Rs. 37 crores on 1st June 1920. Within the same period the metallic proportion of the currency note reserve rose from 45½ per cent. to 51 per cent. The convertibility of the note was thus again secure, and the decline of tension in the silver market, which was so pronounced a feature of the post-war boom, was shown by a fall in the New York price from 134½ cents per ounce in February 1920 to 91 cents per ounce on 30th June 1920. Circumstances were thus favourable to the cancellation of the prohibition of private exports of silver, which was withdrawn on 3rd July 1920.

The removal of the control over gold presented certain special difficulties. India had always been a large consumer of gold, and the practical cessation of imports during the war had led to the existence of a large premium on gold in India. On 31st January 1920, immediately before the decisions on the Babington-Smith Committee's Report were announced, the price of gold in India stood at Rs. 27. 6 as. per tola or Rs. 17. 3 as. per sovereign. The legal rating of the sovereign still stood at Rs. 15, but owing to the premium gold did not circulate as currency. The objective of Government was gradually to reduce the premium on gold in India by sales of bullion in the bazaar until the price of gold in India had been brought into conformity with the world price, and then to remove the embargo on import.

The programme of gold sales lasted from September 1919 to September 1920, by which time gold equivalent to nearly £38¾ millions sovereigns was sold. When the sales were completed the price of the sovereign in India was just under Rs. 15, which represented the cost of importing a sovereign from this country. Actually it had been found possible to withdraw the restrictions on the private import of gold bullion in the course of June 1920, and the later sales were conducted with the object of ensuring that any outstanding demand should be satisfied without undue strain on the world market. Conditions did not, however, enable the Government of India to issue sovereigns in exchange for rupees. Sovereigns could clearly not be paid out by Government in exchange for Rs. 15, the then statutory ratio, seeing that this was about to be reduced to Rs. 10, which was already the formal acquisition rate. When, as explained below, the statutory rate was actually reduced to Rs. 10, issues by Government at this ratio could not be made as the market value of the sovereign was much in excess of the statutory rate. As regards the export of gold from the bazaar, this (*vide* para. 65 of the Babington-Smith Committee's Report) was not prohibited during the war,* but the restrictions on the melting of current gold coin were removed in February 1920.†

* The issue of gold by Government for the encashment of notes was suspended in August 1914 (*vide* para. 10 of Report).

Indian Coinage (Amendment) Act, 1920.

Indian Paper Currency (Amendment) Act 1920.

6. Of other positive measures taken in 1920, the passage of the Indian Coinage Amendment Act in September requires special notice. This Act, together with the corresponding amendment of the Paper Currency Act, gave formal effect to the change of ratio recommended by the Babington-Smith Committee. The sovereign became legal tender in India at Rs. 10, suitable arrangements having been made some weeks previously for the protection of Indian holders of coined gold who might otherwise have suffered by the change of rating.

The Paper Currency Act provided as a temporary arrangement for an increase in the security portion of the reserve by the creation of *ad hoc* Indian Government securities to compensate for the decline in the rupee valuation of the gold and sterling assets, entailed by the change of ratio. The Act contemplated the gradual

† *See* Appendix I, No. 2, para. 5.

reduction of the holding of the Government of India securities* to Rs. 20 crores, of which the created securities were not to exceed Rs. 12 crores. The profits on the Paper Currency were to be devoted to this purpose, and to accelerate the reduction of the *ad hoc* securities it was further arranged that the excess in the Gold Standard Reserve over 40,000,000*l.* should be utilised each year with the same object.† The Paper Currency Act, in addition to laying down special provisions to govern the period in which the holding of the Government of India's securities was being reduced to normal proportions, laid down permanent provisions for the constitution of the Paper Currency Reserve which were to be brought into effect on a day to be "appointed." Owing, however, to the breakdown of the 2*s.* gold rupee this day has not arrived and the Act will require revision to meet altered circumstances, when a new ratio for the rupee is established.

Exchange policy since 1920.

7. While active measures to support exchange up to the new statutory level by the sale of reverse drafts were suspended in September 1920 no formal abandonment of that objective took place. As time advanced it came to be realised with increasing clearness that the 2*s.* gold rate, which might have been appropriate had world prices remained on the level of 1919, was likely to be unsuitable in the circumstances that arose after the general and heavy fall of prices that began in 1920. Though the economic tendencies that were operative during these years shattered the scheme of the Babington-Smith Committee, Government felt it incumbent upon itself to take such indirect measures as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery. The character of the measures taken, some of which would clearly have had to be taken in any event altogether apart from exchange considerations, may be briefly considered.

Rehabilitation of Government finances.

8. The increase in the cost of administration in India, the Afghan War in 1919, and the breakdown of exchange produced heavy deficits in the budgets of the Government of India. For the five years ending 1922–23 the deficiency in the final accounts amounted to nearly Rs. 100 crores, as shown in the margin. These budget deficits entailed heavy borrowings in India and in London, a large increase of the floating debt, and a certain amount of currency inflation. It was the object of Government to get rid of the deficit as soon as possible, to reduce the floating debt, and to contract the inflated currency.

	Rs. lakhs.
1918–19 - -	5,73
1919–20 - -	23,65
1920–21 - -	26,01
1921–22 - -	27,65
1922–23 - -	15,02
Total -	98,06

By the exercise of stringent economy and the increase of taxation, combined with the effects of good monsoons and improving trade, budget equilibrium was restored in 1923–24, and has since been maintained. The issues of short-term Indian Treasury Bills to the public, which reached their maximum of Rs. 60¾ crores in May 1921, were entirely redeemed by July 1924.

Currency restriction.

9. As regards currency contraction, the tendency of Indian trade is to require in ordinary times substantial additions to the currency, and from the figures in Appendix V it will be seen that in the five years preceding the war the average annual absorption of currency was Rs. 22¾ crores. During the war and till the conclusion of the post-armistice boom, the increase was much greater; and for the five years ending 1919–20, excluding absorption of sovereigns, which cannot have circulated to any material extent as currency, the average annual absorption of currency was Rs. 49½ crores. The existence of budget deficits of a substantial amount clearly made currency contraction a matter of unusual difficulty, but in the three years 1920–21, 1921–22 and 1922–23 Government was able to effect a reduction in the currency circulation amounting to Rs. 38⅓ crores.

The measures that were taken to contract the currency made themselves felt in the Indian money market, especially during the busy season of 1923–24. This was a season of active trade following a good monsoon, and the demand for money was

* The Act prescribed Rs. 85 crores as the maximum for all permissible securities held in the Reserve, whether Government of India securities or otherwise, apart from the bills of exchange referred to in the footnote on page 4. By the Indian Paper Currency (Amendment) Act, 1925, the maximum fiduciary issue has been raised to Rs. 100 crores. *See* para. 11 below.

† As regards the profits on the Paper Currency investments, the Act was subsequently amended to enable these profits to be credited to revenue, and they have actually not been used in any year for the cancellation of the *ad hoc* securities in the Reserve. The excess over 40,000,000*l.* in the Gold Standard Reserve was so used in 1921–22 and 1922–23, after which date the interest on the investments in the Reserve has been credited to revenue.

keen. Provisions existed in the Indian Paper Currency Act, as amended in 1923,* for interest-bearing advances to the Imperial Bank by Government up to Rs. 12 crores, and though full advantage was taken of these provisions a serious situation might have resulted had the Government of India not assisted the market by expanding the note issue to the extent of a further Rs. 12 crores against British Treasury bills earmarked to the reserve in London. Even so the Imperial Bank deemed it necessary to advance their rate of discount to 9 per cent. from February to April 1924, a rate which had not been reached since the amalgamation of the three Presidency Banks in 1921. From the figures in Appendix VII, which show the position of the note issue from February 1920 to the present date, it will be observed that the Government securities in the reserve rose in the busy season of 1923–24 by Rs. 14 crores (of which Rs. 2 crores represented an exchange of sterling Treasury bills against gold), but the maximum amount of securities, viz., Rs. 71·5 crores, was substantially lower than the then legal limit of Rs. 85 crores. The object of restricting the increase was to avoid any risk of renewed inflation which might militate against the recovery of exchange, which was still below 1*s*. 4*d*. gold.

Remittance. 10. Apart from the above measures, which must have contributed to check the weakening of exchange and to promote its recovery after the collapse in 1920, Government endeavoured, so far as it could, to avoid placing any positive strain on exchange in connection with the supply of funds for meeting the Home charges. These charges, which amount to about 28,000,000*l*. (exclusive of capital charges) per year, were in the past mainly met by the sale of Council drafts† to banks and other institutions which required rupees for the purpose of financing Indian trade. The sale of these drafts to the public was entirely suspended from January 1920, and it was not until January 1923, when the rupee exchange had recovered to 1*s*. 4*d*. sterling, that Government again offered Council drafts for sale. During the period of suspension the requirements of the Home Treasury were met mainly from the proceeds of recoveries from the Imperial Government in respect of expenditure incurred by the Government of India on their behalf and by sterling loans‡ of unprecedented amount.

The date of the resumption of the sale of Council drafts is significant, as 1922–23 marked the return of Indian trade towards more normal conditions. The extreme reaction from the boom conditions of 1919–20 largely spent itself, so far as India was concerned, in the years 1920–21 and 1921–22, when there were heavy adverse balances of trade. In 1922–23 the figures of the balance of private trade in merchandise and treasure showed a credit of nearly Rs. 30 crores in India's favour. (See Appendix II.) This tendency has been confirmed in the two succeeding years. The Government have thus been able to effect extensive remittances from India to London for the purpose of meeting the Home charges, and it has not been found necessary to float any loan in the United Kingdom since May 1923, all Home charges, both on revenue and capital account, having been defrayed from funds drawn from India with the addition of certain small receipts that accrue on this side.

Season 1924–25. 11. The monsoon of 1924 was a satisfactory one, and when the busy season opened that year there was considerable expectation that the experience of 1923–24 would be repeated, and that high money rates would in due course rule in the Indian market. This view derived support from the cash ratio of the Imperial Bank, whose discount rate rose to 6 per cent. on 16th October 1924, some six weeks before the corresponding event occurred in the preceding year. To mitigate the adverse effects on trade that might ensue from the persistence of unduly high money rates for an excessive period, the Secretary of State and the Government of India agreed on a policy of replenishing with fresh issues of currency the cash balance of the Imperial Bank, with a view to preventing it falling below a reasonable figure. The standard tentatively adopted for this purpose was that the Bank's cash resources should not be allowed to fall materially below Rs. 15 crores before March 1925 or below Rs. 12 crores

* The Babington-Smith Committee recommended that, to meet the seasonal demand for currency in India, powers should be taken which would enable notes to be issued against commercial bills up to a limit of Rs. 5 crores. This additional currency was to be issuable in the form of loans to the Imperial Bank on the collateral security of the bills and was to carry interest at 8 per cent. In 1923 the limit was raised from Rs. 5 to Rs. 12 crores, and certain changes have been made as regards the rate of interest to be charged. At present Rs. 4 crores may be issued at 6 per cent. and Rs. 8 crores at 7 per cent., subject to the whole outstanding advance carrying interest at the minimum of bank rate.

† This method has now been supplemented, and, for the time being, has been largely superseded by the purchase of sterling in India by the Government of India.

‡ Sterling loans have been issued in London by the Secretary of State as follows: 17,500,000*l*. in 1921–22; 32,500,000*l*. in 1922–23; and 20,000,000*l*. in 1923–24. No sterling loan has been issued since May 1923.

in the later part of the busy season. As regards active exchange operations, the policy of the previous busy season was followed, namely, that advantage should be taken of a firm or rising exchange to effect the remittances required for the immediate and prospective needs of the Home Treasury, sterling exchange being bought on an abundant scale with a view to checking any unduly rapid appreciation of the rupee, and operations being avoided when the market was weak.

During September 1924 exchange rose from about 1*s.* $5\frac{1}{4}$*d.* to about 1*s.* $5\frac{3}{4}$*d.*, and early in October 1*s.* $6\frac{5}{16}$*d.*, then equivalent to about 1*s.* $4\frac{3}{4}$*d.* gold, was touched, despite heavy remittance operations by Government.

The position indicated by this sharp upward movement in the exchange formed the subject of anxious consideration between the Government of India and the Secretary of State, as the result of which it was decided that, without making any public announcement of policy, efforts should be made to prevent exchange from breaking away materially above 1*s.* 6*d.* for the time being, any tendency of exchange to rise appreciably above this figure being counteracted by free offerings of rupees. In pursuance of this policy, remittances from India to the Home Treasury were effected in the latter half of 1924–25 by the purchase of sterling in India and the sale of Council drafts in London to the amount of 21,864,536*l.* at rates varying between 1*s.* $5\frac{13}{16}$*d.* and 1*s.* $6\frac{5}{16}$*d.*, the last remittance in the financial year being made on 10th March 1925, after which date exchange declined for a period somewhat below 1*s.* 6*d.*

During the same period the note issue was expanded to the extent of Rs. 8 crores against internal bills of exchange and Rs. 6 crores against British Treasury bills. In order to remove anxiety, and to provide ample margin for possible expansion, the maximum limit of the fiduciary issue was raised by the Indian Paper Currency (Amendment) Act, 1925, from Rs. 85 to Rs. 100 crores, but it has not been found necessary to have recourse yet to these additional powers.*

The demand for money was not as keen during the busy season of 1924–25 as in the preceding year, and the Imperial Bank did not raise their rate of discount above 7 per cent., as compared with 9 per cent. the year before. The comparative ease with which the monetary needs of the season were met is in part to be explained by the fact that, owing to the large net imports of bullion (especially gold, of which nearly Rs. 50 crores were imported in the half-year ending March 1925), the visible balance of trade in favour of India was substantially lower in 1924–25 than in 1923–24. Further, as explained above, the policy of the Imperial Bank was no doubt influenced by the knowledge that the Government of India were anxious to avoid a recurrence of the extreme stringency of the previous year, and were prepared to co-operate with them to this end.

1925–26. As regards 1925–26 (to date) there has been no material departure from the policy adopted in 1924–25 as regards the exchange. After consideration of all the relevant conditions, the Secretary of State and the Government of India agreed that it was undesirable that exchange should be permitted, for the time being at any rate, to rise materially above 1*s.* 6*d.* From April to September 1925 remittances have been effected by Government to the amount of 20,548,000*l.* at rates varying from 1*s.* 6*d.* to 1*s.* $6\frac{3}{16}$*d.* for telegraphic transfers. During this period the balance of private trade in commodities and treasure has continued strongly in India's favour, the figures for April—August (see Appendix II) showing a credit of nearly Rs. 49 crores.

Prices and exchange. 12. The reflection of the collapse of trade in 1920 and the subsequent gradual improvement on the course of Indian internal prices and the rupee exchange may now be considered.

The following table exhibits the movements in the Indian wholesale price level since the pre-war period, in comparison with the corresponding changes in the wholesale price levels of the United Kingdom and United States of America. The table also shows, in the penultimate column, the average sterling-rupee exchange in recent years, and as, after the unpegging of the London-New York exchange in 1919, sterling depreciated substantially in terms of gold, figures are given in the final column showing the gold equivalent of the rupee after allowance is made for the discount on sterling.

* This increase in the permissible fiduciary issue was coupled with a proviso that the value of the created securities in the Reserve should not exceed Rs. 50 crores.

—	Index numbers of wholesale prices			Exchange.	
	Calcutta.*	U.K. "Statist."	U.S.A. Labor Bureau.	Average rupee-sterling exchange.†	Gold value of the rupee (based on Calcutta-on-London and London-on-New York T.T. selling rates).
				s. d.	s. d.
1913 average	—	100	100	1 4$\frac{1}{16}$	—
1914 "	100	100	98	1 4$\frac{1}{16}$	—
1915 "	112	127	101	1 4	—
1916 "	128	160	127	1 4$\frac{1}{8}$	—
1917 "	147	206	177	1 4$\frac{3}{8}$	—
1918 "	180	226	194	1 5$\frac{1}{2}$	—
1919 "	198	242	206	1 8$\frac{15}{16}$	1 7$\frac{1}{16}$
1920 "	204	295	226	2 0$\frac{3}{32}$	1 5$\frac{25}{32}$
1921 "	181	182	147	1 4$\frac{1}{32}$	1 0$\frac{11}{16}$
1922 "	180	154	149	1 3$\frac{19}{32}$	1 2$\frac{3}{16}$
1923 "	176	152	154	1 4$\frac{9}{32}$	1 3$\frac{5}{16}$
1924 "	177	164	150	1 5$\frac{1}{4}$	1 3$\frac{21}{32}$
1925—Jan.	171	170	160	1 5$\frac{15}{16}$	1 5$\frac{5}{8}$
Feb.	172	168	161	1 5$\frac{31}{32}$	1 5$\frac{5}{8}$
Mar.	168	165	161	1 5$\frac{15}{16}$	1 5$\frac{13}{32}$
April	169	162	156	1 5$\frac{27}{32}$	1 5$\frac{19}{32}$
May	164	160	155	1 5$\frac{15}{16}$	Discontinued on reversion of U.K. to gold standard.
June	157	154	157	1 6$\frac{1}{32}$	
July	160	158	160	1 6$\frac{3}{32}$	
August	157	158	160	1 6$\frac{3}{32}$	

* This index is based on the prices in July 1914 (100), and is constructed by obtaining the arithmetic average of the ratios of the individual prices of 16 groups of 45 articles. The index is not weighted except in a crude way by allowing two or more quotations for certain important commodities, 73 quotations being taken in all.

† The rates for the years 1913 to 1918 represent the average rates of exchange obtained by the Secretary of State for sales of Bills and Telegraphic Transfers on India; from 1919 onwards the rates represent the daily average for each year of the market Telegraphic Transfer selling rates in Calcutta on London.

In para. 49 of their Report the Babington-Smith Committee referred to the effect of the rise in the rupee exchange on the Indian price-level, and observed that, though it was impossible to estimate in precise terms the influence of the rise in exchange on Indian prices, they did not doubt that "in accordance with accepted economic theory Indian prices would, but for the rise in exchange, have been still further enhanced."

It will be noted from the above table that in 1920 the average of the United Kingdom price-level was practically 200 per cent. above the pre-war figure. During the same period the level of Indian prices had risen by only 100 per cent. Without postulating any precise equilibrium in the movement of British and Indian prices, it may be assumed that the difference between the above figures was, as suggested by the Babington-Smith Committee, to a substantial extent accounted for by the rise in the rupee-sterling exchange, of which the average in 1920 was 2*s.* as compared with 1*s.* 4*d.* before the war.

From 1920 to 1921 gold prices as measured by the United States index declined by 35 per cent., and sterling prices according to the *Statist* index by 38 per cent., or, if this movement is considered from another angle, gold recovered 43 per cent. and sterling 32 per cent. of the loss in purchasing power suffered since the outbreak of war. Economic events moved somewhat differently in India. From 1920 to 1921 the Indian price-level fell only about 11 per cent., that is, the rupee failed to retain the full relative advantage in respect of purchasing power which it had established with reference to gold and sterling during the great rise in world-prices that occurred towards the close of the war and in the post-armistice period.

The circumstances that led to the breakdown of the policy aiming at a stabilisation of the rupee at 2*s.* gold have been discussed in paragraphs 3 and 4. At this stage it seems sufficient to observe that the contraction of currency, which would have

been required to induce a movement in the Indian price-level conforming to that occurring in gold and sterling prices, would have been a hazardous undertaking, which might have brought untoward consequences to the Government of India and to Indian trade. The fact, however, that the Indian price-level did not conform to the movement in gold and sterling prices was naturally reflected in the decline of the rupee exchange.

After 1921 gold prices, it will be observed from the figures in Appendix VI relating to price movements in the United States of America, rose slightly in 1922 and 1923 taken as a whole. During this period until the middle of 1923 sterling prices were inclined to fall, but the difference in tendency is largely accounted for by the fact that the sterling value of gold was improving during this period, the averages for the dollar-sterling exchange in the years 1920, 1921, 1922, and 1923, being \$3.66, \$3.85, \$4.43 and \$4.57 respectively. In 1924 sterling prices rose again, and there was a slight reaction from the previous rise in the United States index. It will be observed from the monthly figures and diagram in Appendix VI that after the decline in Indian prices in 1921 the movement in the Indian price-level in the years 1922–24 was slight, and there was greater price stability in India than either in the United States of America or the United Kingdom. Here, again, the explanation may be found to some extent, at any rate, in the movement of the Indian exchange. The average rates for the rupee-sterling exchange in the four years 1921, 1922, 1923 and 1924 were 1*s.* $4\frac{1}{32}$*d.*, 1*s.* $3\frac{19}{32}$*d.*, 1*s.* $4\frac{9}{32}$*d.* and 1*s.* $5\frac{1}{4}$*d.*, respectively, the corresponding gold values for the rupee in these years being about 1*s.* $0\frac{3}{4}$*d.*, 1*s.* $2\frac{1}{8}$*d.*, 1*s.* $3\frac{1}{4}$*d.*, and 1*s.* $3\frac{21}{32}$*d.* At the end of April 1924—that is, at the close of the busy season—the sterling-rupee exchange stood at 1*s.* $4\frac{23}{32}$*d.*, equivalent to 1*s.* $3\frac{1}{16}$*d.* gold. Various influences, such as the gradual improvement of trade and the restriction of currency, to which reference has already been made, undoubtedly contributed to the progressive improvement in the exchange value of the rupee, but it is worth noting that this result was the natural concomitant of the relative stabilisation of the Indian price-level during a period in which gold and sterling prices had shown a tendency to rise. During 1925 the sterling and rupee indices show a declining trend without any marked disproportion in the movement for the first eight months of the year. During this period the rupee exchange has continued firm with a rising tendency.

While it is not suggested that any positive inferences can be drawn from the index numbers referred to in this note, the figures are of interest as conforming, when considered in their broad aspect, to the view that movements in the rupee exchange have a more or less definite relation to movements in world-prices. The collapse in world-prices in 1920 contributed to the heavy fall in the rupee exchange, and the subsequent partial recovery in world-prices has been a substantial factor in promoting the rise in exchange from the low level of 1921.

The bearing of the relation between prices and exchange on the question of the rating of the rupee will be further considered in a subsequent paper.

Appendix I.

Announcements issued in connection with the Report of the Committee on Indian Exchange and Currency, 1919.

No. 1.

Announcement by the Secretary of State for India, published on 2nd February 1920.*

The Secretary of State in Council has considered, in consultation with the Government of India, the Majority and Minority Reports received from the Committee appointed by him, under the chairmanship of Sir Henry Babington-Smith, to advise on the subject of Indian Exchange and Currency. The Majority Report, which is signed by the Chairman and all the members of the Committee except Mr. D. M. Dalal, states as its objects the restoration of a stable and automatic system and the maintenance of the convertibility of the note issue.

* This announcement was also issued in India on 2nd February 1920 as Finance Department Notification No. 369 F.

The fundamental recommendations of the Report are as follows :—

(a) that the present rupee, unchanged in weight and fineness, should remain unlimited legal tender;

(b) that the rupee should have a fixed exchange value, and that this exchange value should be expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, that is, one-tenth of the gold content of the sovereign;

(c) that the sovereign, which is now rated by law at Rs. 15, should be made a legal tender in India at the revised ratio of Rs. 10 to one sovereign;

(d) that the import and export of gold to and from India should be free from Government control, as soon as the change in the statutory ratio has been effected, and that the gold mint at Bombay should be open for the coinage into sovereigns of gold tendered by the public;

(e) that the notification of the Government undertaking to give rupees for sovereigns should be withdrawn;

(f) that the prohibition on the private import and export of silver should be removed in due course, and that the import duty on silver should be repealed unless the fiscal position demands its retention.

These recommendations develop, with the necessary modifications required by altered circumstances, the principles on which the Indian currency system was established before the war, and are accepted by the Secretary of State in Council as expressing the goal towards which Indian currency policy should now be directed.

Under the conditions existing prior to the war sterling and gold were identical standards. The existing disparity has made a choice between these standards necessary, and the Committee's recommendation is in favour of placing the rupee on a gold basis.

In recommending a rate, namely, that above mentioned, for the exchange value of the rupee, the Chairman and majority have taken account of the high range of silver prices, and of the importance of safeguarding the convertibility of the Indian note issue by providing so far as possible that the token character of the rupee shall be restored and maintained, *i.e.*, that the Indian Government may be in a position to buy silver for coinage into rupees without loss. They were also impressed by the serious economic and political risks attendant on a further expansion of Indian prices such as must be anticipated from the adoption of a low rate.

The arguments advanced in favour of a gold basis and a high rate of exchange appear to the Secretary of State in Council to be conclusive, and he has decided to take the necessary steps to give immediate effect to the recommendations on these points. Accordingly the Government of India have to-day announced that the rate which they will pay for gold tendered to them under the Gold Import Act by private importers will henceforth be fixed at one rupee for 11·30016 grains of fine gold, that is 10 rupees for the gold content of the sovereign. The consequential changes in the regulations relating to the sale of Council Drafts by the Secretary of State in Council and Reverse Councils by the Government of India will be notified separately.

The question of the internal ratio presents special difficulties. The Committee recommend the maintenance of gold on a legal tender footing, especially in view of possible difficulties in obtaining adequate supplies of silver. A fixed ratio must therefore be established between the rupee and gold as used in the internal circulation, either one sovereign for Rs. 15 as at present or one sovereign for Rs. 10 in correspondence with the new exchange ratio. The former alternative would give the sovereign the status of an overvalued token coin, necessitate permanent control over the import of sovereigns and make an open gold mint impossible. The Secretary of State in Council agrees with the Committee that such conditions ought not to be contemplated as a permanent arrangement. On the other hand, the lower ratio cannot be effectively introduced while a great disparity continues to exist between the commercial price of gold in India and the intended Indian Mint par of one sovereign for Rs. 10.

Present conditions are the product of the war, and in some sense artificial. They cannot be immediately remedied without the risk of shock to the economic and monetary system in India and of reactions elsewhere to which India cannot in her own interests be indifferent; a gradual process of rectification and adjustment

to new conditions is required. For some time past action has been taken in India to reduce the premium on gold by regular Government sales of bullion to the public, and this measure will be further developed. It may be expected that in this way a natural adjustment may be effected and the path to legislation cleared.

The Secretary of State has decided therefore, (1) that the import of gold shall continue, for the present, to be controlled by licence under the Gold Import Act with a fixed acquisition rate as mentioned above, (2) that meanwhile periodical sales of gold bullion to the public shall continue, and (3) that as a provisional measure during the transitional period the sovereign shall remain a legal tender at the present ratio of Rs. 15.

In arriving at these decisions the Secretary of State in Council has not failed to give careful consideration to the Minority Report signed by Mr. D. M. Dalal. Mr. Dalal's main object is the effective restoration and maintenance of the ratio of Rs. 15 to one sovereign as a measure both of the exchange and the circulating value of the rupee. In order to secure this he relies upon freedom for the melting and export of rupees and corresponding freedom for the import of gold. To meet the possible resulting shortage of silver coin he recommends that as long as the New York price of silver remains above 92 cents Government should coin 2-rupee silver coins of reduced fineness, the coinage of rupees of present weight and fineness being meanwhile suspended and only resumed when the price of silver falls to the figure named. He also recommends that sterling drafts on the Secretary of State should be sold only at 1*s*. $3\frac{29}{32}$*d*.

The Secretary of State in Council is satisfied that this programme could not be adopted without untoward consequences. The heavy exports of silver coin to be anticipated under the scheme must threaten not only the whole silver circulation but also the Government's reserve of silver coin, and entail the gravest risk of inconvertibility of the Government's note issue. The demand for the gold required *pari passu* to make this deficiency good must greatly aggravate any strain there may be on the gold stocks of the world when freedom of import is restored. Nor is it safe to assume that these difficulties could be met by issuing new silver coins of inferior fineness; the evidence against the acceptability of inferior substitutes for the present rupee has impressed the majority, and their recommendation on this head is accepted by the Secretary of State as decisive. Mr. Dalal's recommendation in regard to the rate for sterling drafts, if adopted, must produce an immediate crash in exchange, bringing unmerited disaster to those who have reasonably relied on some continuity of policy. The only cover which his scheme affords is the export of the country's circulating currency. In any case, even if a return to the pre-war level of exchange could be accomplished without shock to trade or risk to the currency system, it would lay India open to a further serious inflation of prices, while the Majority's recommendations would tend towards a reduction of the general price level in India.

Both during and since the war Indian currency and exchange have presented problems previously unanticipated and more perplexing than any encountered since the decision to close the Mints in 1893. But the Secretary of State in Council is satisfied that the decisions reached promise an eventual solution, and he desires to express his acknowledgments to the Committee and their Chairman for the ability and thoroughness with which they have explored the issues and framed their recommendations.

No. 2.

Announcement dated 2nd February 1920 issued by the Government of India.*

The acquisition rate for gold imported under licence into India, which has hitherto been subject to variation notified from time to time, has now, in accordance with the Secretary of State for India's separate announcement published to-day relating to the recommendations of the Indian Currency Committee, been fixed, and the following fixed rates will apply to transactions on and after Monday, 2nd February, namely, Rs. 10 for each sovereign tendered for import, or one rupee for 11·30016 grains of fine gold.

* The first two paragraphs of the above Announcement were also issued in London on 2nd Feb. 1920.

2. Council drafts will continue to be offered at the Secretary of State's discretion for weekly sale at the Bank of England by competitive tender. The rate for deferred telegraphic transfers and bills will, until further notice, rank for allotment with tenders at $\frac{1}{16}$th of a penny higher for immediate telegraphic transfers. No announcement will be made of the minimum rate at which tenders will be accepted, and the Secretary of State for India in Council reserves the right of rejecting the whole or part of any tender. In accordance with the Committee's recommendations, the Government of India will, when occasion requires, offer for sale stated weekly amounts of sterling reverse drafts on the Secretary of State for India (including immediate telegraphic transfers).

The rates for immediate telegraphic transfers on London will be announced on each occasion by the Controller of Currency, and will be based on the sterling equivalent of the price of 11·30016 grains fine gold, as measured by the prevailing sterling-dollar exchange, less a deduction representing the charges of remitting gold. The rate for deferred drafts on London will, until further notice, be $\frac{1}{16}$th of a penny higher than the immediate rate as at present.

3. The Finance Department Notification No. 4071,* dated the 11th September 1897, providing for the issue of rupees at the reserve treasuries in Calcutta, Madras, and Bombay, in exchange for sovereigns and half-sovereigns at the rate of Rs. 15 and Rs. 7½ respectively, is cancelled. Notification No. 6908A,* dated the 11th December 1906, regarding the receipt of sovereigns and half-sovereigns at the mints, is also cancelled.

4. The existing prohibition on the import of silver is cancelled, and the import duty of four annas an ounce is abolished. The prohibition on the export of silver remains.

5. The Notifications under the Defence of India Act *prohibiting the use of gold and silver coin otherwise than as currency, or dealing therein at a premium, are cancelled.

* *See* Appendix below.

Appendix to above.

(*a*) NOTIFICATION OF THE GOVERNMENT OF INDIA, No. 4071 (FINANCE AND COMMERCE), dated 11th September 1897.

In continuation of the notifications No. 2662, No. 2663, and No. 2664, dated 26th June 1893, the Governor-General in Council hereby notifies for public information that from and after the date of this notification, sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia will be received at the Reserve Treasuries at Calcutta, Madras, and Bombay, and rupees will be issued in exchange therefor, the sovereign and half-sovereign being taken as the equivalent of 15 rupees and of seven rupees eight annas respectively.

(*b*) NOTIFICATION OF THE GOVERNMENT OF INDIA, No. 6908A, dated 11th December 1906.

Receipt by the Mints of Calcutta and Bombay of Sovereigns and Half-Sovereigns only.

In supersession of the notifications by the Government of India in the Financial Department, No. 2662, dated the 26th June 1893, and No. 3218A, dated the 14th July 1899, which are hereby cancelled, the Governor-General in Council is pleased to direct that, with effect from 1st April 1907, gold bullion and gold coins, other than sovereigns and half-sovereigns, will not be received by the Mint Masters of the Calcutta and the Bombay Mints.

(*c*) THE DEFENCE OF INDIA (CONSOLIDATION) RULES, 1915.

21A. No person shall melt, break up, or use otherwise than as currency, any current gold or silver coin.

21C. No person shall sell or purchase or offer to sell or purchase any coin for an amount exceeding the face value of such coin, or shall accept or offer to accept any such coin in payment of a debt or otherwise for an amount exceeding its face value.

Explanation.—For the purposes of this rule, the face value of a sovereign shall be deemed to be Rs. 15, and the face value of other gold coins described in section II of the Indian Coinage Act, 1906, shall be the corresponding proportion of Rs. 15.

Appendix II.

Sea-borne Trade of British India on Private Account, 1911–12 to 1923–24.

Year.	Merchandise. Imports.	Merchandise. Exports.	Merchandise. Net imports (−) or net exports.	Treasure. Imports.	Treasure. Exports.	Treasure. Net imports (−) or net exports.	Balance of trade in merchandise and treasure. Net imports (−) or net exports.	Rates of exchange. Calcutta on London T.T. selling (daily average).	Rates of exchange. Average rate obtained for Council drafts and purchases of sterling.
	Rs. lks.	Rs. lks.	Rs. lks.	Rs. lks.	Rs. lks.	Rs. lks.	Rs. lks.	s. d.	s. d.
1911–12 -	1,38,57	2,27,85	89,28	53,42	10,36	*−43,06*	46,22	—	1 4·083
1912–13 -	1,61,00	2,46,09	85,09	51,20	7,05	*−44,15*	40,94	—	1 4·058
1913–14 -	1,83,25	2,48,88	65,63	36,62	7,05	*−29,57*	36,06	—	1 4·070
1914–15 -	1,37,93	1,81,59	43,66	21,77	3,30	*−18,47*	25,19	—	1 4·004
1915–16 -	1,31,99	1,97,46	65,47	11,86	7,43	*−4,43*	61,04	—	1 4·088
1916–17 -	1,49,64	2,45,22	95,58	14,90	4,94	*−9,96*	85,62	—	1 4·148
1917–18 -	1,50,43	2,42,56	92,13	26,05	5,43	*−20,62*	71,51	—	1 4·534
1918–19 -	1,69,03	2,53,88	84,85	1,22	2,69	1,47	86,32	—	1 5·548
1919–20 -	2,07,97	3,30,06	1,22,09	11,12	7,52	*−3,60*	1,18,49	1 11·878	1 9·691
1920–21 -	3,35,60	2,58,17	*−77,43*	23,42	25,80	2,38	*−75,05*	1 8·657	2 2·042†
1921–22 -	2,66,35	2,45,44	*−20,91*	31,15	18,99	*−12,16*	*−33,07*	1 3·849	1 3·965‡
1922–23§ -	2,24,31	3,14,33	90,02	63,04*	2,78*	*−60,26*	29,76	1 3·764	1 4·200
1923–24 -	2,17,03	3,61,91	1,44,88	52,20*	3,55*	*−48,65*	96,23	1 4·460	1 4·632
1924–25 -	2,43,18	3,98,36	1,55,18	99,03*	4,91*	*−94.12*	61,06	1 5½	1 5·661
1925–26 (5 months)	89,68	1,58,13	68,45	20,62*	1,06*	*−19,56*	48,89	1 6	1 6·075

* Currency Notes are included from April 1922. † Reverse Councils.

‡ Daily average for London T.T.'s on Calcutta. § From 1922–23 the value of railway materials imported direct by State Railways working under Company management have been excluded.

Appendix III.

Indian Currency and Exchange.

The following announcement has been issued to-day by the Government of India:—

Removal of Restrictions on Imports of Gold into India and Rates for Reverse Drafts.

The Government of India and the Secretary of State have been in communication during the last few weeks regarding the action to be taken in view of the recent market rates of exchange, which have now not only departed from the parity of gold, but have, through lack of support from the export market, fallen below the parity of 2*s.* which will ultimately hold when gold and sterling return to parity. The effective and permanent solution of this question cannot be dissociated from the policy to be adopted in regard to gold. The Government of India are glad to announce that as from 21st June the restrictions over the import of gold bullion and foreign coin will be removed. Moreover, the Governor-General is issuing an Ordinance declaring that sovereigns and half-sovereigns will cease until further notice to be legal tender, though they will be received by Government at the present ratio of Rs. 15 during a moratorium of 21 days from this date, that is to say, up to 12th July. On the expiry of the moratorium, the restrictions over the import of British gold coin will also be withdrawn. At the forthcoming session of the Legislative Council the Government of India propose to submit a Bill prescribing the new ratio of one sovereign = Rs. 10, at which the sovereign will become again legal tender. These measures, which are in accordance with the recommendations of the Indian Currency Committee, have been rendered specially urgent by the illicit importation of sovereigns, which are smuggled across the land frontier of British India for encashment at Government Treasuries and currency offices.

2. The Government of India announce that, having regard to the fall in the market rate of sterling, the rates for Reverse Councils at the sale of 24th June and at subsequent sales will be per rupee 1*s.* 11$\frac{19}{32}$*d.* for Immediates and 1*s.* 11$\frac{11}{16}$*d.* for Deferreds, these being the rates which will ultimately hold when sterling once more returns to par with gold. At these rates 1,000,000*l.* will be sold on the 24th instant, and weekly till further notice.

The following Ordinance has been issued to-day by the Government of India :—

An Ordinance to deal with certain Gold Coin.

Whereas an emergency has arisen which makes it expedient to declare that gold coin referred to in section 11 of the Indian Coinage Act of 1906* shall cease to be legal tender and to make other provision in this connection: Now therefore in exercise of the power conferred by section 72 of the Government of India Act, 1915, the Governor-General in Council is pleased to make and promulgate the following Ordinance :—

Ordinance No. 3 of 1920.

Section 1. This Ordinance may be called the Gold Ordinance, 1920.

Section 2. Notwithstanding anything contained in section 11 of the Indian Coinage Act, 1906, the gold coin referred to in that section shall cease to be legal tender in payment or on account, provided that if any person within 21 days from the commencement of this Ordinance tenders any such coins at an office of a circle of issue established under section 5 of the Indian Paper Currency Act, 1910, he shall be entitled on demand to receive currency notes of the denominational values prescribed under that Act in exchange therefor at the rate of 15 rupees for one sovereign.

Section 3. In determining for purposes of the Indian Paper Currency Act, 1910, the value of sovereigns and half-sovereigns held in the reserve, such sovereigns and half-sovereigns shall be valued at the rate of 15 rupees for one sovereign.

INDIA OFFICE,
21st June 1920.

* Section 11 of Indian Coinage Act, 1906 :—

"Gold coins, whether coined at His Majesty's Royal Mint in England or at any Mint established in pursuance of a Proclamation of His Majesty as a branch of His Majesty's Royal Mint shall be a legal tender in payment or on account at the rate of 15 rupees for one sovereign:

"Provided that such coins have not been called in by any Proclamation made in pursuance of the Coinage Act, 1870, or have not lost weight so as to be of less weight than that for the time being prescribed for like coins or under the said Statute as the least current weight."

APPENDIX IV.

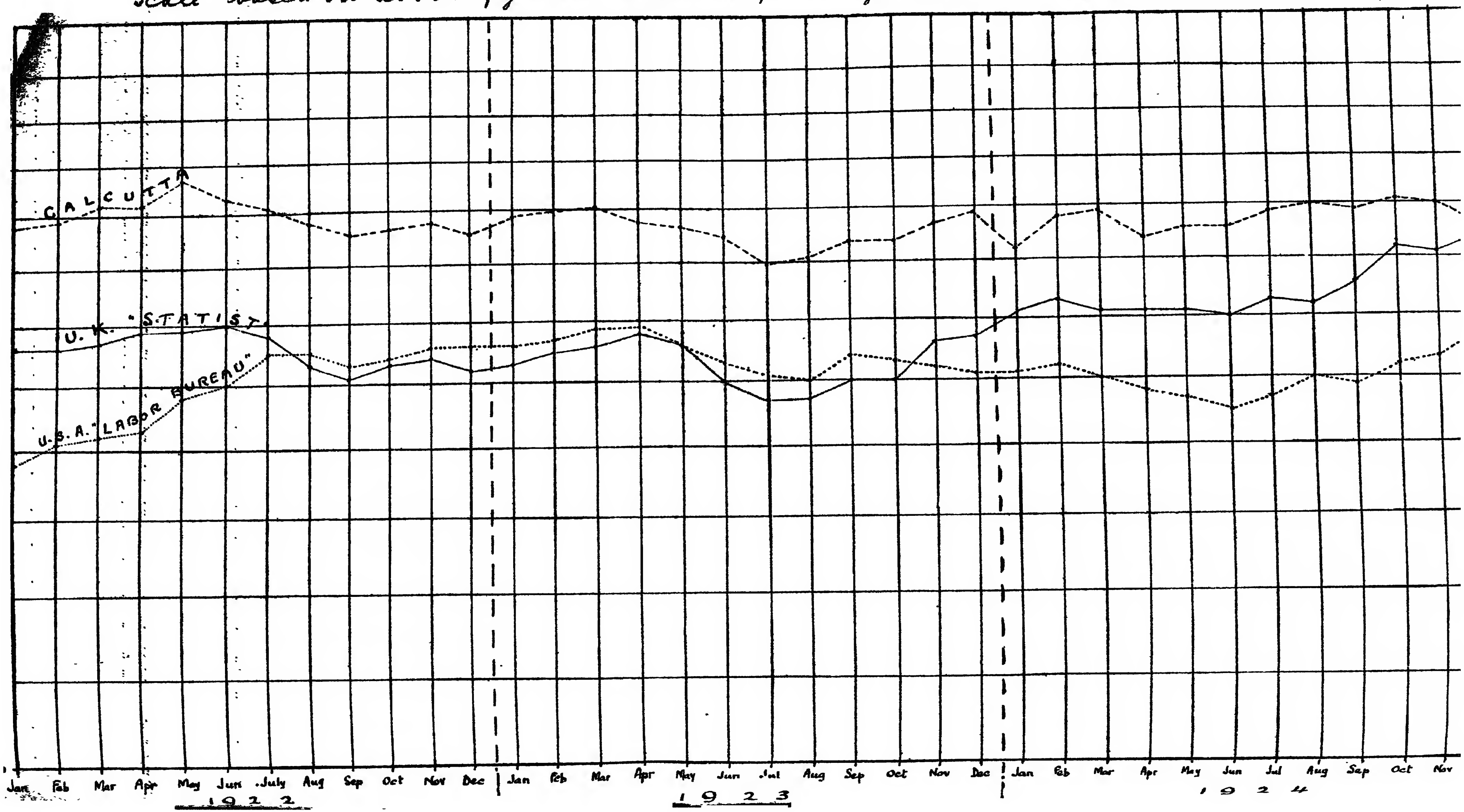
Suspension of Sale of Reverse Drafts by the Government of India.

The following announcement has been made in India :—

The Government of India have been in continuous communication during the past few months with the Secretary of State on the subject of the sale of Reverse Council Bills. Since the 1st February the note circulation has been reduced from 185 crores to 158 crores on the 15th September, and this material contraction of currency has to a large extent been rendered possible by the maintenance of the weekly offer to sell sterling drafts on London. The effect which might have been anticipated on the exchange value of the rupee by reason of the withdrawal of this substantial amount of currency has, however, been obscured by various causes, including the stagnation in the export trade and the abnormal activity in the imports into India of foreign goods. An opportunity for reconsidering the whole question has presented itself on the passing into law at the recent session of the Legislative Council of the Indian Coinage Act, rating the sovereign at Rs. 10, and the Government of India have accordingly, with the approval of the Secretary of State, decided after the sale of 28th September to withdraw for the present and until further notice the present weekly offer of sterling drafts on London. The Government of India, however, reserve to themselves the right of resuming these sales should circumstances in their opinion at any time subsequently render such resumption expedient.

INDIA OFFICE,
28th September 1920.

Scale based on above figures to exhibit percentage variations of price indexes from 1922 to 19



APPENDIX V.

Absorption of the various forms of currency during the five years preceding the war and the eleven subsequent years.

(In lakhs of Rupees.)

Year.	Rupees.	Notes.†	Total.	Sovereigns and half-sovereigns.	Grand total.
1909–10 - - -	13,22	5,03	18,25	4,31	22,56
1910–11 - - -	3,34	19	3,53	2,15	5,68
1911–12 - - -	11,50	4,44	15,94	13,33	29,27
1912–13 - - -	10,49	2,71	13,20	16,65	29,85
1913–14 - - -	5,32	2,65	7,97	18,11	26,08
Total for 5 years 1909–10 to 1913–14 - -	43,87	15,02	58,89	54,55	1,13,44
1914–15 - - -	*−6,70*	*−6,01*	*−12,71*	8,43	*−4,28*
1915–16 - - -	10,40	9,23	19,63	29	19,92
1916–17 - - -	33,81	13,89	47,70	3,18	50,88
1917–18 - - -	27,86	17,22	45,08	14,26	59,34
1918–19 - - -	45,02	49,29	94,31	5,81*	1,00,12
1919–20 - - -	20,09	20,20	40,29	*−3,32*	36,97
1920–21 - - -	*−25,68*	*−5,90*	*−31,58*	*−4,38*	*−35,96*
1921–22 - - -	*−10,46*	9,35	*−1,11*	2,78	1,67
1922–23 - - -	*−9,56*	3,87	*−5,69*	9,43	3,74
1923–24 - - -	7,62	7,96	15,58	6,74	22,32
1924–25 - - -	3,65	*−2,51*	1,14	14,53	15,67
Total for 11 years 1914–15 to 1924–25 - -	96,05	1,16,59	2,12,64	57,75	2,70,39

Sovereigns have been valued at Rs. 15 = 1*l* in the above table.

* Includes 60 on account of gold mohurs.

† These figures are based on the active note circulation, which does not include notes held in Government Treasuries and by the Imperial Bank.

APPENDIX VI.

Index Numbers of Wholesale Prices based on 100 in 1913.

Month.	1922.			1923.			1924.		
	Calcutta.*	U.K. *Statist.*	U.S.A. *Labor Bureau.*	Calcutta.*	U.K. *Statist.*	U.S.A. *Labor Bureau.*	Calcutta.*	U.K. *Statist.*	U.S.A. *Labor Bureau.*
January - -	178	156	138	179	153	156	172	161	151
February -	179	156	141	180	155	157	178	163	152
March - -	182	157	142	181	156	159	179	161	150
April - -	182	159	143	178	158	159	174	161	148
May - -	187	159	148	177	156	156	176	161	147
June - -	183	160	150	175	150	153	176	160	145
July - -	181	158	155	170	147	151	179	163	147
August - -	178	153	155	171	147	150	180	162	150
September -	176	151	153	174	150	154	179	166	149
October - -	177	153	154	174	150	153	181	172	152
November -	178	154	156	177	156	152	180	171	153
December -	176	152	156	179	157	151	176	174	157

* July 1914 = 100.

APPENDIX VII.

Note Circulation and Currency Reserve from 1920.

Date.	Gross note circulation.	Gold coin and bullion.*		Silver coin and bullion.		Total Metallic Reserve.	Per cent. of Metallic Reserve to Total Reserve (excluding Hundis).	Securities.		Total securities.	Bills of exchange (Hundis).	Total Reserve (excluding Hundis).
		In India.	Out of India.	In India.	Out of India.			Government of India.	British Government.			
	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Per cent.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.
1920.												
Jan. 31	185,15	35,10	11,62	40,33	—	87,05	47·0	15,60	82,50	98,10	—	185,15
Feb. 29	183,03	41,30	4,65	38,98	—	84,93	46·4	15,60	82,50	98,10	—	183,03
March 31	174,52	44,36	3,45	39,85	—	87,66	50·2	19,59	67,27	86,86	—	174,52
April 30	170,74	45,38	95	39,37	—	85,70	50·2	23,77	61,27	85,04	—	170,74
May 31	166,92	42,86	74	41,37	—	84,97	50·9	31,18	50,77	81,95	—	166,92
June 30	164,34	43,48	2,49	45,55	—	91,52	55·7	35,55	37,27	72,82	—	164,34
July 31	163,87	44,62	—	50,36	—	94,98	57·9	40,62	28,27	68,89	—	163,87
Aug. 31	163,27	39,12	—	55,29	—	94,41	57·8	47,33	21,53	68,86	—	163,27
Sept. 30	157,63	36,15	—	58,06	—	94,21	59·8	47,14	16,28	63,42	—	157,63
Oct. 31	159,58	23,75	—	59,41	—	83,16	52·1	68,07	8,35	76,42	—	159,58
Nov. 30	160,21	23,86	—	59,93	—	83,79	52·3	68,07	8,35	76,42	—	160,21
Dec. 31	161,40	23,89	—	61,09	—	84,98	52·6	68,07	8,35	76,42	—	161,40
1921.												
Jan. 31	163,41	24,00	—	62,99	—	86,99	53·2	68,07	8,35	76,42	—	163,41
Feb. 28	164,60	24,06	—	64,12	—	88,18	53·6	68,07	8,35	76,42	—	164,60
March 31	166,16	24,17	—	65,57	—	89,74	54·0	68,07	8,35	76,42	—	166,16
April 30	167,32	24,26	—	66,65	—	90,91	54·3	68,06	8,35	76,41	—	167,32
May 31	167,80	24,30	—	67,16	—	91,46	54·5	67,99	8,35	76,34	—	167,80
June 30	171,76	24,35	—	71,07	—	95,42	55·5	67,99	8,35	76,34	—	171,76
July 31	175,56	24,35	—	74,81	—	99,16	56·5	68,05	8,35	76,40	—	175,56
Aug. 31	176,02	24,35	—	76,40	—	100,75	57·2	66,92	8,35	75,27	—	176,02
Sept. 30	178,37	24,34	—	78,76	—	103,10	57·8	66,92	8,35	75,27	—	178,37
Oct. 31	179,71	24,34	—	79,96	—	104,30	58·0	67,06	8,35	75,41	—	179,71
Nov. 30	173,48	24,33	—	78,41	—	102,74	59·2	64,40	6,34	70,74	—	173,48
Dec. 31	172,53	24,32	—	73,97	—	98,29	57·0	68,40	5,84	74,24	—	172,53
1922.												
Jan. 31	174,40	24,32	—	74,84	—	99,16	56·8	69,39	5,85	75,24	—	174,40
Feb. 28	173,87	24,32	—	76,27	—	100,59	57·9	67,43	5,85	73,28	—	173,87
March 31	174,76	24,32	—	77,52	—	101,84	59·0	65,08	5,84	70,92	2,00	172,76
April 30	171,76	24,32	—	76,51	—	100,83	58·7	65,09	5,84	70,93	—	171,76
May 31	172,39	24,32	—	77,06	—	101,38	58·8	65,17	5,84	71,01	—	172,39
June 30	176,01	24,32	—	80,73	—	105,05	59·7	65,12	5,84	70,96	—	176,01
July 31	180,41	24,32	—	85,09	—	109,41	60·6	65,15	5,85	71,00	—	180,41
Aug. 31	182,26	24,32	—	88,32	—	112,64	61·8	63,78	5,84	69,62	—	182,26
Sept. 30	180,76	24,32	—	89,67	—	113,99	63·1	60,92	5,85	66,77	—	180,76
Oct. 31	179,63	24,32	—	91,10	—	115,42	64·2	58,37	5,84	64,21	—	179,63
Nov. 30	177,30	24,32	—	89,72	—	114,04	64·3	57,42	5,84	63,26	—	177,30
Dec. 31	174,18	24,32	—	86,60	—	110,92	63·7	57,42	5,84	63,26	—	174,18
1923.												
Jan. 31	172,65	24,32	—	85,06	—	109,38	63·4	57,43	5,84	63,27	—	172,65
Feb. 28	173,89	24,32	—	86,29	—	110,61	63·6	57,43	5,85	63,28	—	173,89
March 31	174,70	24,32	—	87,06	—	111,38	63·7	57,48	5,84	63,32	—	174,70
April 30	173,37	24,32	—	83,65	—	107,97	63·0	57,55	5,85	63,40	2,00	171,37
May 31	171,23	24,32	—	83,57	—	107,89	63·0	57,50	5,84	63,34	—	171,23
June 30	173,61	24,32	—	85,95	—	110,27	63·5	57,50	5,84	63,34	—	173,61
July 31	175,72	24,32	—	90,04	—	114,36	65·1	57,51	3,85	61,36	—	175,72
Aug. 31	176,30	24,32	—	94,47	—	118,79	67·4	57,51	—	57,51	—	176,30
Sept. 30	179,29	24,32	—	97,49	—	121,81	68·0	57,48	—	57,48	—	179,29
Oct. 31	180,82	24,32	—	99,02	—	123,34	68·2	57,48	—	57,48	—	180,82
Nov. 30	178,30	22,32	—	95,50	—	117,82	66·1	57,48	3,00	60,48	—	178,30
Dec. 31	183,41	22,32	—	86,61	—	108,93	62·1	57,48	9,00	66,48	8,00	175,41
1924.												
Jan. 31	184,02	22,32	—	82,18	—	104,50	59·4	57,52	14,00	71,52	8,00	176,02
Feb. 29	186,19	22,32	—	80,34	—	102,66	58·9	57,53	14,00	71,53	12,00	174,19
March 31	185,85	22,32	—	80,00	—	102,32	58·9	57,53	14,00	71,53	12,00	173,85
April 30	181,33	22,32	—	77,49	—	99,81	58·3	57,53	13,99	71,52	10,00	171,33
May 31	174,51	22,32	—	76,66	—	98,98	58·0	57,53	14,00	71,53	4,00	170,51
June 30	172,49	22,32	—	78,65	—	100,97	58·5	57,53	13,99	71,52	—	172,49
July 31	176,24	22,32	—	82,57	—	104,89	59·1	57,35	14,00	71,35	—	176,24
Aug. 31	178,13	22,32	—	84,48	—	106,80	59·9	57,33	14,00	71,33	—	178,13
Sept. 30	179,25	22,32	—	85,62	—	107,94	60·2	57,31	14,00	71,31	—	179,25
Oct. 31	180,98	22,32	—	86,53	—	108,85	60·1	57,13	15,00	72,13	—	180,98
Nov. 30	180,06	22,32	—	84,62	—	106,94	59·4	57,13	15,99	73,12	—	180,06
Dec. 31	179,21	22,32	—	80,76	—	103,08	58·2	57,13	17,00	74,13	2,00	177,21
1925.												
Jan. 31	181,11	22,32	—	77,67	—	99,99	56·5	57,12	20,00	77,12	4,00	177,11
Feb. 28	183,72	22,32	—	76,28	—	98,60	53·6	57,12	20,00	77,12	8,00	175,72
March 31	184,19	22,32	—	76,75	—	99,07	53·8	57,12	20,00	77,12	8,00	176,19
April 30	179,61	22,32	—	74,17	—	96,49	55·6	57,12	20,00	77,12	6,00	173,61
May 31	173,23	22,32	—	73,75	—	96,07	55·5	57,16	20,00	77,16	—	173,23
June 30	178,25	22,32	—	78,75	—	101,07	56·7	57,18	20,00	77,18	—	178,25
July 31	184,30	22,32	—	84,80	—	107,12	58·1	57,18	20,00	77,18	—	184,30
Aug. 31	188,21	22,32	—	88,78	—	111,10	59·1	57,11	20,00	77,11	—	188,21
Sept. 30	189,51	22,32	—	90,09	—	112,41	59·3	57,11	19,99	77,10	—	189,51

* With effect from 1st October 1920, the Gold and Sterling Securities in the Paper Currency Reserve, previously valued at Rs. 15 = 1*l*., were re-valued at Rs. 10 = 1*l*., in accordance with the provisions of the Paper Currency (Amendment) Act, 1920. The resulting deficiency in the Reserve was made up by the addition of *ad hoc* India Treasury Bills.

APPENDIX 70.

Memorandum No. 2, on "Some Considerations affecting the Stabilisation of the Rupee-Sterling Exchange," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

After the breakdown of the 2*s.* gold rupee it was always taken for granted that conditions would, in due course, arise in which it would be expedient and necessary to attempt again a permanent solution of the Indian exchange problem. The main questions that now have to be decided are :—

(*a*) whether the time is now ripe for this attempt, and

(*b*) if so, what should be the basis of the new exchange ratio ?

2. As regards (*a*), account has to be taken both of local and international factors. The historical note previously circulated has already touched upon the principal considerations that appear relevant to this issue. These appear to be as follows :—

(A) The Indian budget is a balanced budget, and, barring any unforeseen calamities, such as war or famine on a large scale, the capacity of the Government of India to maintain budget equilibrium in the future may be assumed.

(B) The Floating Debt, in the form of Treasury Bills, which at one time threatened to reach dangerous proportions, has now been extinguished, and the danger of the Government being compelled to resort to inflation on this account has disappeared. There is indeed a considerable volume of short-term debt maturing in the next few years (*vide* figures in Appendix I), but the credit of the Government of India is such that there should be no insuperable difficulty in renewing the debt on maturity by conversion operations supplemented as necessary by fresh borrowing.

(C) The stabilisation of the Indian exchange pre-supposes a substantial export surplus, which has to provide the amount required for meeting the home charges, now amounting to about 28,000,000*l.* on revenue account, *plus* any sterling capital expenditure not met by borrowing in the United Kingdom. In the five years before the war the visible balance of trade in merchandise and precious metals averaged Rs. 42·2 crores annually in India's favour. In 1923–24 and 1924–25 the corresponding figures were Rs. 96·2 crores and Rs. 61·1 crores. Assuming that no serious or sudden disturbance of world values is to be apprehended, India should be in a position to maintain a substantial export surplus in the future as in the past, though not necessarily as large as in the last two years. This remark has reference to the normal tendency of Indian trade over an extended period, and does not mean that occasions may not arise, especially in the event of monsoon failures, when the balance of trade may be temporarily adverse. Such a situation, if exhibited in a tendency of exchange to weaken below the gold export parity, called for definite action under the exchange system as in force before the war, and has to be taken into account in the formulation of any new policy (*see* (D) below).

In this connection it may be of interest to refer to certain statistics of Indian trade and price indices. For the five years before the war the average annual value of the private import and export trade in goods to and from India was Rs. 146 crores and Rs. 224 crores respectively. The corresponding figures in the years 1923–24 and 1924–25 were (imports) Rs. 217 crores and Rs. 243 crores, and (exports) Rs. 362 crores and Rs. 398 crores respectively. Allowing for the increase in import prices of 80 per cent. and 100 per cent. in each of the last-mentioned years above the pre-war figure, and about 45 per cent.* in the export values in each of the years concerned, the corresponding valuations on the basis of pre-war prices would be (imports) Rs. 121 crores and Rs. 122 crores, and (exports) Rs. 250 crores and Rs. 275 crores respectively. It would seem reasonable to expect that, if and when prices in the chief manufacturing countries fall, the volume of imports into India should increase.

* The percentages here used are based on figures taken from "Index Numbers of Indian Prices, 1861–1918" (with Addenda), published by the Department of Statistics, India. (*See* Appendix II.)

Although the satisfactory character of the Indian export trade is brought out by the above figures, it is natural to enquire, with reference to the movement of exchange, whether Indian prices stand in the same relation to world prices as they did before the war.

The Calcutta index number, which is believed to be the most reliable of the Indian general index numbers, is based on the prices of a number of individual articles, including for this purpose import and export articles. On the basis of the latest available figures (August 1925), as compared with 100 pre-war (*vide* Appendix II), the Calcutta general index number stood at 157 as compared with the *Statist* index number for the United Kingdom of 158 and the United States (Labour Bureau) index number of 160. These figures tempt the inference that Indian and world prices have now much the same relation as before the war. But it has to be remembered that the pre-war rupee exchange stood at 1*s*. 4*d*. and the rupee-dollar exchange at 32½ cents as compared with approximately 1*s*. 6*d*. and 36¾ cents, respectively, last August. Allowing for the variation in exchange, it is necessary to raise the Indian index by one-eighth to find the comparative gold price index for India corresponding to the *Statist* figure, and the Indian figure of 157 would rise to 177 as compared with the *Statist* index of 158. This might suggest that the present level of Indian prices is too high or that the exchange is higher than price parities would warrant. On the other hand, apart from the difficulties inherent in the interpretation of index numbers, there seems to be no convincing reason for assuming that the ratio between Indian and United Kingdom prices will necessarily be the same in the future as before the war. The course of events has been different in the two countries and allowance must be made for the heavy general tariff which is now in force in India. Further, there is at present a striking disparity between the index numbers for Indian export and import articles, which last July stood at 142 and 191, respectively. The height of this last figure, which owing to the rise in exchange underrates the increase, no doubt largely explains the relatively low imports into India at the present time. But allowing for the rise in exchange from 1*s*. 4*d*. to 1*s*. 6*d*., the export index of 142 corresponds closely with the *Statist* July number 158. Thus on the basis of the Indian export index there would seem to be no material disparity between the present and pre-war relations of British prices generally and the prices of Indian exports.

While it is difficult to draw any precise practical conclusions from this survey of recent index numbers, it may perhaps be said that they in a sense elucidate the tendencies of Indian trade as exhibited in the actual statistics of exports and imports.

(D) The stabilisation of the rupee-sterling exchange postulates that the Government should be able to provide rupees without limit at the ratio established, and that it should have the means of drawing off redundant local currency, should this be required, at any time. As regards the supply of rupees, the maintenance of the 1*s*. 4*d*. exchange was, if convertibility was not to be sacrificed, rendered impossible in the course of the war by the great rise in the price of silver. With silver at about 42*d*. per standard ounce the cost of a rupee (including minting charges) is about 1*s*. 4*d*. With exchange at 1*s*. 6*d*. the price of silver would have to rise to 47*d*. per standard ounce before the actual cost of the currency unit would amount to exchange value. If the exchange were at 1*s*. 8*d*. or 2*s*. the corresponding figures would be about 53*d*. and 63*d*. per standard ounce. Since the restoration of the gold standard in the United Kingdom, the price of silver in London has ranged between $31\frac{1}{16}d$. and $33\frac{7}{16}d$. per standard ounce.

As regards the reserves available to enable the Government to offer international exchange against payment of local currency, the position is as follows. The Gold Standard Reserve, which is invested in sterling securities, mostly with short-term maturity, amounts to 40,000,000*l*., the actual constitution on 30th September 1925 being as shown in Appendix III. Under existing orders the reserve will not increase beyond this figure. In addition to this reserve, which has been specifically built up for the support of exchange, 20,000,000*l*. British Treasury Bills are at present held in London on account of the Paper Currency Reserve, and there is also held in India £22·3 million in gold to which recourse could be had if necessary. There are large outstanding borrowing powers* in the hands of the Secretary of State, and recourse to the London market remains open for strengthening the resources of the Secretary of State whenever required.

* Unexhausted borrowing powers on 30th September 1925:—
For productive purposes, 64,000,000*l*.
For general purposes, 18,049,186*l*.

The question of the adequacy or otherwise of the Gold Standard Reserve will, doubtless, engage the attention of the Committee, but at present it may suffice to state that the amount of the reserve may be compared with 26,000,000*l.* which is the maximum figure held in it before the war. Moreover, at no time before the war did the amount held in the Gold Standard Reserve and the Paper Currency Reserve on this side together exceed 31,000,000*l.**

(*Vide* Question 5626, Babington-Smith Committee.)

In 1919 the late Sir Lionel Abrahams inclined to the view that 25,000,000*l.* would be an adequate holding in the Gold Standard Reserve, but held that no final decision should be taken until economic conditions had returned to greater normality. Sir Henry Howard, who was at one time Financial Secretary to the Government of India, held that the aim should be to build the reserve up to not less than 40,000,000*l.*, which is the actual figure at the present time. He considered that after this total had been reached half of the subsequent accretions might profitably be diverted to capital expenditure, and that after 50,000,000*l.* had been reached all the receipts accruing to the reserve might be so utilised.

(*Vide* Appendix D, para. 6, to Appendix I, Babington-Smith Committee.)

In Memorandum No. 1 it was explained that the average annual absorption of currency by India in the five years preceding the war was about 23 crores. In the eleven abnormal years 1914–15 to 1924–25 the average absorption was about Rs. 25 crores. What the future normal figure is likely to be cannot be foreseen. But assuming that it will be in the neighbourhood of Rs. 25 crores, it will be observed that a Gold Standard Reserve of 40,000,000*l.* represents a power of contracting the currency at an exchange of 1*s.* 6*d.* to the extent of approximately Rs. 53 crores, that is, about two years' normal absorption. Past experience suggests that, except in quite abnormal circumstances, this amount of currency contraction would be much in excess of what the market could stand without producing grave stringency, and that a much smaller amount of contraction should suffice to bring about the readjustment of credit and prices required to re-establish the exchange value of the rupee should this at any time threaten to fall away. At the same time account must be taken of the fact that normality in world conditions has not yet been established, and though it would possibly suffice to maintain a reserve of 25,000,000*l.* or thereabouts with the view to redress a weakening of exchange due to a temporary adverse trade balance, it is difficult to assess the strain that might be placed on the reserve if a prolonged period of steadily falling gold prices set in, and the Secretary of State was obliged by adverse financial conditions to draw heavily on the reserve for financing his requirements. Moreover, it is undesirable to reduce the sterling reserves to a figure which might not leave a sufficient margin for safety or might give rise to undue alarm or nervousness on the part of the public. The Babington-Smith Committee, agreeing in this respect with the Chamberlain Commission of 1913–14, held in 1919 that no limit could at that time be fixed to the amount up to which the Gold Standard Reserves should be accumulated from the profits of coinage. They considered that the settlement of this matter should await the return of normal conditions.

Since the date of the Babington-Smith Committee experience sheds little light regarding the amount at which the Gold Standard Reserve should be maintained. The sterling reserves of the Secretary of State have only once been called into play since the date of that Report, that is in 1920, when, as explained in Memorandum No. 1, an attempt was made to support exchange at 2*s.* gold, and, later, at 2*s.* sterling. The catastrophic fall in prices rendered the attempt abortive, but the fact that 55,000,000*l.* was expended in a vain attempt to support exchange in exceptional conditions is no evidence that the existing reserves are insufficient having regard to any normal contingency that may properly be provided for. It may perhaps be urged that reserves in London aggregating £60,000,000 (£40,000,000 in the Gold Standard Reserve and £20,000,000 in the Paper Currency Reserve, irrespective of Currency Reserve gold in India) represent an excessive holding. But there is force in the view that before reducing the size of the Gold Standard Reserve experience of

* This figure may be compared with the reserves held abroad by Japan. "It has been the practice, since Japan first adopted the gold standard, to keep a considerable specie reserve in New York and London. Since January 1923 the total sum so kept has diminished noticeably. In 1921 the amount was over 1,000 million yen, but in March 1924 the amount had dwindled down to 403 million yen."—*The Economic Review*, 14th November 1924 (1,000 million yen = at par of exchange about 100,000,000*l.*).

the working of a re-established exchange system over a series of years should be awaited, and in such a matter, where there is clearly scope for difference of opinion, the magnitude of the issues suggests that less harm is to be apprehended from maintaining the reserve at a high figure than from reducing it to what might prove an inadequate or inconvenient level. In dealing with this question it is necessary, of course, to have regard to the rate of exchange that it may be desired to establish in the future, and in formulating a line of policy as regards the Gold Standard Reserve it might be well to consider whether it would be desirable to regulate its growth with reference to the holding of sterling and gold in the Paper Currency Reserve.

(E) The re-establishment of the gold standard in the United Kingdom has removed one of the main difficulties that faced the Babington-Smith Committee in 1919. The experience of the period immediately following the issue of the Report showed the danger of attempting to fix the exchange value of the rupee while sterling was divorced from gold, and it has been generally recognised, since the breakdown of the Babington-Smith Committee's scheme, that it would be desirable to wait for the return of the gold standard in the United Kingdom before a further attempt was made to stabilise the rupee exchange.

3. The question, whether the time is opportune for bringing to an end the period of instability of the rupee exchange, involves consideration of the prospects of world price movements in the period ahead. In Memorandum No. 1 already referred to it has been shown that the rise in the rupee exchange in 1922–24 played an important part in securing relative price stability for India at a time when world prices were rising. The arguments in favour of regulating currency policy with a view primarily to securing price stability have been much debated in the Press and elsewhere, and undoubtedly there would be certain advantages in applying such a policy to India, where conditions are in some respects favourable for this treatment of the question; but as the United Kingdom, the sterling-using Dominions and other important European countries, have rejected the idea of basing their currency policy on internal prices and have elected to revert to the gold standard, it is scarcely a practical issue to consider a different course in the case of India. Further, Indian trade and finance are closely bound up with sterling, and there will be great and manifest advantages to Government and trade in re-establishing an effective fixed parity between the rupee and the pound now that the United Kingdom has reverted to the gold standard. Moreover, in such a matter it is necessary to pay great weight to sentiment, and there is no doubt that Indian economic and political sentiment is strongly in favour of a reversion to gold as soon as possible. It would seem, therefore, that the only justification for not bringing the Indian currency into line with the policy of the United Kingdom and the Dominions would have to be founded on an anticipation of an early or substantial change in the level of world prices, which might make it desirable to postpone for a further period the actual decision as to the rating of the rupee. The point deserves careful attention, as if the element of elasticity at present inherent in the regulation of the rupee exchange is once surrendered by linking the rupee to gold at a new parity, it would scarcely be possible to recover it, except in the deplorable event of a breakdown of the new ratio.

4. If any substantial rise in world prices is to be apprehended at an early date, the ratio of the rupee in terms of gold, determined in the light of existing factors, might prove lower than would be expedient. On the other hand, if any substantial fall in world prices is likely, the ratio, determined in the light of existing factors, might prove higher than would be conducive to India's economic interests in the long run, or might even conceivably be beyond the power of Government to render effective in the end. It is not suggested that any clear evidence exists for inclining to either of these views. There has undoubtedly been advantage in mitigating for India in 1923–24, by the rise in exchange, the effect of the rise in world prices which would have been communicated to her had the rupee been effectively linked to sterling or gold at a fixed ratio during that period, and there are obvious drawbacks, at a time when the future of world prices is obscure, in surrendering this element of elasticity in Indian currency policy. On the other hand, it is important, in the interests of Government and trade, to bring to an end the period of exchange instability as soon as there is good ground for believing that world prices are likely to remain reasonably steady. No doubt it is at present difficult to forecast future movements in the commodity value of gold, and on this fact a case might be based for a further period of delay before

taking permanent decisions regarding the rupee-sterling exchange. But, altogether apart from the natural desire to terminate the period of Government management of the currency, in the sense that it has had to be managed in the last few years, it may perhaps be assumed that the United Kingdom, and the other countries which have now returned to the gold standard, would not have done so had there not been good grounds for holding that the years immediately ahead would not witness any serious change in price levels. In this connection it is worth noting the statement by the Chancellor of the Exchequer on 28th April:—

> "We have entered a period on both sides of the Atlantic when political and economic stability seems to be more assured than it has been for some years."

Further, the importance of maintaining the commodity value of gold stable was emphasised at the Genoa Conference, and it may perhaps be anticipated that this is likely to be a subject of constant care to the principal Central Banks of the world. While, therefore, it cannot be disguised that there must be some risk in basing recommendations regarding the permanent rating of the rupee on the factors of to-day, it has to be considered if the risks are greater than it would be reasonable to take, and even if decisions were postponed for a further period the element of risk cannot be entirely eliminated whenever the actual decision is taken.

5. The bearing of India's absorption of gold on the stabilisation of the exchange will, doubtless, receive attention. Statistics are included in Appendix IV, showing the amount of India's net absorption of precious metals in recent years. The large volume of net gold imports in 1922–23, 1923–24 and 1924–25, viz., Rs. 41 crores, Rs. 29 crores and Rs. 70½ crores respectively, are noteworthy, and it is significant that, despite these large imports, exchange rose in these three years from 1*s*. 1¾*d*. gold to practically 1*s*. 6*d*. gold. With the rise in the gold value of the rupee substantially above the pre-war rating, gold has lately been cheaper in India than at any time during the past generation. It is, therefore, no matter for surprise that imports of gold have recently been on an unprecedented scale. Although efforts have been, and are being, made to encourage the investment habit in India, changes in this direction are likely to be of slow growth, and it must be assumed that with gold relatively cheap India's demand for the metal is likely to continue to be large. Imports of commodities have been relatively low in recent years, doubtless in part owing to high prices in the manufacturing countries. If gold prices decline, the tendency may be for India to take a larger part of the payment for her exports in commodities rather than in gold. The question of these gold imports has an important relation to the future of commodity value of gold, that is gold prices generally, but there does not seem any reason to think that India's absorption of gold is likely to militate against the maintenance of the rupee exchange in the future any more than it did in the pre-war period.

6. The utilisation of gold in India as currency is a separate but connected issue with a long history behind it. The views of the Babington-Smith Committee will be found in paras. 66–8 of their Report. The question of opening a gold mint in Bombay has not been a practical one in recent years owing to the exchange position being out of accord with the statutory ratio. But the issue must be expected to arise again if and when a new effective gold parity is established, and a demand may be anticipated that a branch of the Royal Mint for the coinage of gold should be reopened in Bombay, as recommended by the Babington-Smith Committee.* A new factor bearing on the case is the decision of His Majesty's Government not to give facilities for the circulation of gold coin in the United Kingdom at present.

7. If it is held that the time is appropriate for measures to be taken to stabilise the exchange value of the rupee, the question of the ratio has to be considered not from the point of view of the pre-war rating, or from the point of view of the abnormal conditions ruling towards the end of the war, but from the point of view of the ruling ratio and the parity of Indian and world prices. It is certainly a striking fact that, so far as the present writer knows, the Indian exchange is the only important exchange in the world that has appreciated in terms of gold, and it may be asked why the pre-war rate should not be re-established in India as in the United Kingdom. It is not proposed to pursue this question here beyond observing that the history of the

* *Cf.* answer to a question in the Council of State, 30th January 1924:—". . . . The Indian mints are prepared to coin gold as soon as the demand for gold currency arises, but no such demand can arise so long as the present premium on gold as compared with its statutory parity exists."

British and Indian currencies since the outbreak of war, and the economic conditions of the two countries, are widely different. The breakdown of the 1*s.* 4*d.* exchange and the progressive rise in the rupee exchange to 2*s.* and above must be regarded as having deprived the old 1*s.* 4*d.* ratio of validity. Similarly, the collapse of the 2*s.* ratio embodied in the Indian Coinage Act of 1920, and the disappearance of the conditions under which that ratio might have become effective, have deprived the 2*s.* ratio of the sanctity ordinarily attaching to currency law.

These ratios have now an historical and academic interest. If it were desired to direct currency policy towards their re-establishment, it would be necessary to justify that policy, not by arguments based on past history, but on the economic factors of the present.

8. For the purpose of this part of the discussion it has been assumed that a period of relative economic stability may be expected; otherwise it would presumably be considered inexpedient to attempt at present the permanent fixation of the rupee exchange. On this hypothesis it may be asked, what would be the effect of re-establishing an exchange rating of 1*s.* 4*d.*? Seeing that the rupee exchange has now ruled at about 1*s.* 6*d.* for some time, it must be presumed that the adjustment of prices and wages in India to this ratio has been continuously in progress, and that a permanent lowering of exchange would involve a serious disturbance of values. Doubtless the period of falling exchange would result in immediate profit to some industries, which would be able to increase the rupee price of their products without at once having to meet a corresponding increase in the costs of production. As regards these costs experience has shown that adjustments of wages in due course follow a rise in the cost of living, and the temporary advantage disappears on the readjustment of costs and wages to the reduced purchasing power of money. It may be asked whether it would be necessary or expedient to increase the nominal wages of Indian labour, urban or rural, in the event of a decline in the purchasing power of the rupee. This is a question on which first-hand evidence is more readily obtainable in India than in this country, where up-to-date statistics are not available. Figures for the year 1922 from the Bombay Presidency tend to show that the real wages of labour have risen since 1914, except in the case of field or ordinary labour in rural areas, the largest increase, that of ordinary urban labour, having been about 12 per cent. The bearing of this position on the Indian cotton industry, subjected to vigorous Japanese competition, may be developed by witnesses in India. Others will be in a position to speak of the importance of maintaining the standard of living of the workers.

9. From the point of view of Government a reduction of the exchange ratio from 1*s.* 6*d.* to 1*s.* 4*d.* would have far-reaching reactions throughout the administration. One immediate effect would be to increase the burden of the home charges by approximately Rs. 6 crores per annum, which would militate against the execution of important financial measures that the Government of India have in view. The Local Governments would also suffer severely from any rise in general prices consequent on a decline in exchange. This would again upset financial equilibrium, and the process of readjustment would raise fresh and embarrassing problems affecting the incidence of taxation. It should be noted in this connection that an important part of their income is derived from the land revenue, which is either permanently fixed or only capable of slow expansion over an extended period.

10. There are also objections, assuming again that the period ahead is one of economic stability, to directing policy towards enhancing the exchange value of the rupee. Such a policy would, if it became effective, involve the reduction of the rupee prices of Indian produce, and would inflict a serious tax on industry until costs had been reduced in correspondence with the increased purchasing power of the rupee. This process would impose an unnecessary strain on industry at a time which is generally recognised to be a difficult one for business. It has to be remembered that the recent rise in exchange to 1*s.* 6*d.*, as has been pointed out in Memorandum No. 1, has been assisted by the rise in world prices which enabled the exchange value of the rupee to rise without involving any great change in its internal purchasing power. From the point of view of the Government of India, a rise in the rupee exchange from 1*s.* 6*d.* to a higher rate would of course lead to a reduction in the cost of providing for the home charges, but there would seem no justification for

making this a governing consideration in dealing with the Indian exchange and for exposing Indian trade in the process to grave risks and uncertainty. It will also be realised that any announcement of the intention of Government to stabilise the exchange at a ratio either above or below the ruling rate would be likely to introduce disturbing factors into business and to encourage speculation.

11. The above arguments point to the conclusion that, if it were desired to-day to stabilise the rupee exchange, this should be done with reference to the ruling rate, viz., 1*s.* 6*d.*, *i.e.*, the sovereign would be equivalent to Rs. $13\frac{1}{3}$ and the gold rating of the rupee would be 8·47512 grains of fine gold.*

Figures showing the market rate of exchange in recent months will be found in Appendix V. As regards these it will be observed that the rate has ruled in the neighbourhood of 1*s.* 6*d.* since October 1924, and it must be assumed that prices and wages have been adjusting themselves to this rate throughout the period from this date. Moreover, in the absence of unforeseen developments, there would appear to be no abnormal risks in a policy aiming at stabilisation at this level.

12. These observations apply, of course, to existing conditions. The situation may conceivably change before the Commission reports, and it may be necessary to modify in important respects the views provisionally expressed above in the course of any later evidence that the Commission may require.

* This rating, it may be observed incidentally, furnishes a relatively convenient parity for expressing a sovereign in terms of rupees and a rupee in terms of pence. If, however, conditions pointed to stabilisation at some other point which did not furnish these two facilities and a choice had to be made between them, the advantages of being able to convert the sovereign into an exact equivalent in Indian currency, especially if it is made legal tender in India, deserve to be emphasised.

Appendix I.

Rupee Debt of the Government of India maturing from 1926 to 1935. Amounts outstanding on 31st March 1925, modified as a result of Conversion Loan of 1925.

	Rs. lakhs.
6 per cent. Five Year Bonds, 1926 - - - -	20,14
6 per cent. Five Year Bonds, 1927 - - - -	20,01
$5\frac{1}{2}$ per cent. War Bonds, 1928 - - - -	21,83
6 per cent. Ten Year Bonds, 1930 - - - -	29,28
6 per cent. Ten Year Bonds, 1931 - - - -	11,31
6 per cent. Ten Year Bonds, 1932 - - - -	19,49
5 per cent. Ten Year Bonds, 1933 - - - -	21,46
5 per cent. Ten Year Bonds, 1935 - - - -	4,71
Total - - -	1,48,23

APPENDIX II.

Index Numbers of Wholesale Prices based on 100 in 1913.*

—	India exported articles. (a)	India imported articles. (b)	General Index Numbers. Calcutta. (c)	U.K. "Statist."	U.S.A. Labor Bureau.
1923, January	149	183	179	153	156
February	147	187	180	155	157
March	149	185	181	156	159
April	147	185	178	158	159
May	143	186	177	156	156
June	140	181	175	150	153
July	140	178	170	147	151
August	135	175	171	147	150
September	136	181	174	150	154
October	138	182	174	150	153
November	138	184	177	156	152
December	145	187	179	157	151
Average for 1923	145	179	176	152	154
1924, January	142	186	172	161	151
February	140	202	178	163	152
March	142	224	179	161	150
April	141	224	174	161	148
May	141	209	176	161	147
June	142	215	176	160	145
July	145	216	179	163	147
August	150	214	180	162	150
September	153	211	179	166	149
October	151	205	181	172	152
November	152	196	180	171	153
December	150	200	176	174	157
Average for 1924	146(d)	209(d)	177	164	150
1925, January	149	200	171	170	160
February	146	198	172	168	161
March	149	198	168	165	161
April	147	199	169	162	156
May	147	197	164	160	155
June	145	189	157	154	157
July	142	191	160	158	160
August	—	—	157	158	160

* The first two columns of figures are based on figures taken from "Index Numbers of Indian Prices, 1861–1918" (with Addenda), published by the Department of Statistics, India. The figures in the next column, giving the Calcutta Index number, are percentages of the prices in July 1914.

(a) The index number of India exported articles is unweighted and is based on the average of the wholesale prices of 28 articles, including grains, seeds, tea, castor oil, jute, cotton, raw silk, wool and hides, skins, coal, lac, saltpetre and indigo.

(b) The index number of Indian imported articles is unweighted and is based on the average of the wholesale prices of 11 articles, including sugar, salt, cotton piece goods and yarn, raw silk, iron, copper, spelter, coal and kerosene oil.

(c) The Calcutta general index number is the arithmetic average of the ratios of the individual prices of 16 groups of 45 articles. The index is not weighted except in a crude way by allowing two or more quotations for certain important commodities, 73 quotations being taken in all.

(d) The actual averages for 1924 may differ slightly from these figures, which are averages of the monthly figures in this table.

APPENDIX III.

Gold Standard Reserve. Composition on 30th September 1925.

	£
In England.	
Cash at Bank of England - - - - - -	1,399
British Treasury Bills - - - - - -	10,529,931
Securities maturing within the next two years - -	7,398,670
Securities maturing in more than two and less than five years	20,150,215
Securities maturing in more than five and less than 10 years	959,606
British War Loan, 1929–47 - - - - - -	960,179
	40,000,000
In India - - - - -	Nil.
Total - -	£40,000,000

APPENDIX IV.

Indian Sea-borne Trade in Gold and Silver on Private Account.

NOTE.—The figures in this table exclude transactions which do not enter into the balance of trade.

Year.	Gold.			Silver.			Total.
	Imports.	Exports.	*Net Import* or Net Export.	Imports.	Exports.	*Net Import* or Net Export.	*Net Import* or Net Export.
	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.
1909–10 - -	25,01·8	3,34·9	*21,66·9*	12,40·9	3,04·5	*9,36·4*	*31,03·3*
1910–11 - -	27,89·3	3,91·4	*23,97·9*	11,77·5	3,20·4	*8,57·1*	*32,55·0*
1911–12 - -	41,49·4	3,72·6	*37,76·8*	11,92·9	6,63·5	*5,29·4*	*43,06·2*
1912–13 - -	41,29·1	3,71·2	*37,57·9*	9,90·7	3,33·4	*6,57·3*	*44,15·2*
1913–14 - -	28,22·6	4,90·3	*23,32·3*	8,39·4	2,14·9	*6,24·5*	*29,56·8*
1914–15 - -	10,70·4	2,24·9	*8,45·5*	11,06·7	1,05·4	*10,01·3*	*18,46·8*
1915–16 - -	5,24·4	35·0	*4,89·4*	6,61·1	1,03·5	*5,57·6*	*10,47·0*
1916–17 - -	4,26·0	6·2	*4,19·8*	1,56·0	3,72·0	2,16·0	*2,03·8*
1917–18 - -	21,46·8	0·9	*21,45·9*	2,37·8	92·2	*1,45·6*	*22,91·5*
1918–19 - -	2·6	0·3	*2·3*	6·0	0·3	*5·7*	*8·0*
1919–20 - -	32,63·6*	Nil	*32,63·6**	15·2	30·0	14·8	*32,48·8**
1920–21 - -	45,87·1†	21,17·7	*24,69·4*†	10,69·7	3,28·0	*7,41·7*	*32,11·1*†
1921–22 - -	13,82·0	16,61·3	2,79·3	17,29·1	2,33·6	*14,95·5*	*12,16·2*
1922–23 - -	41,31·4	13·3	*41,18·1*	20,71·4	2,53·8	*18,17·6*	*59.35·7*
1923–24 - -	29,25·3	6·7	*29,18·6*	21,78·1	3,40·0	*18,38·1*	*47,56·7*
1924–25 - -	70,95·0	36·2	*70,58·8*	24,26·0	4,20·3	*20,05·7*	*90,64·5*
1925–26 (first 5 months).	12,26·1	13·6	*12,12·5*	8,19·9	73·7	*7,46·2*	*19,58·7*

* Includes as an import Rs. 21,66·5 lakhs—the value of gold sold in India by the Government of India.
† " " " Rs. 33,83·1 " " " " " " " "

APPENDIX V.

Rates of Exchange for Calcutta Telegraphic Transfers on London (average of daily rates).

Month.	1920.	1921.	1922.	1923.	1924.	1925.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
January - -	2 $3\frac{7}{8}$	1 $5\frac{7}{16}$	1 $3\frac{27}{32}$	1 $4\frac{9}{32}$	1 $5\frac{3}{16}$	1 $5\frac{15}{16}$
February - -	2 $8\frac{1}{8}$	1 $4\frac{3}{32}$	1 $3\frac{17}{32}$	1 $4\frac{1}{4}$	1 $4\frac{29}{32}$	1 $5\frac{31}{32}$
March - -	2 $4\frac{3}{4}$	1 $3\frac{5}{16}$	1 $3\frac{9}{32}$	1 $4\frac{3}{32}$	1 $4\frac{11}{16}$	1 $5\frac{15}{16}$
April - -	2 $3\frac{11}{16}$	1 $3\frac{5}{8}$	1 $3\frac{5}{32}$	1 $4\frac{1}{8}$	1 $4\frac{3}{4}$	1 $5\frac{27}{32}$
May - -	2 $1\frac{7}{16}$	1 $3\frac{3}{8}$	1 $3\frac{17}{32}$	1 $4\frac{3}{32}$	1 $4\frac{27}{32}$	1 $5\frac{15}{16}$
June - -	1 11	1 $3\frac{13}{32}$	1 $3\frac{9}{16}$	1 $4\frac{3}{32}$	1 $4\frac{15}{16}$	1 $6\frac{1}{32}$
July - -	1 $10\frac{1}{32}$	1 $3\frac{9}{32}$	1 $3\frac{5}{8}$	1 $4\frac{3}{32}$	1 $5\frac{5}{32}$	1 $6\frac{31}{32}$
August - -	1 $10\frac{13}{32}$	1 $4\frac{3}{32}$	1 $3\frac{19}{32}$	1 4	1 $5\frac{7}{32}$	1 $6\frac{3}{23}$
September - -	1 $10\frac{1}{32}$	1 $5\frac{5}{32}$	1 $3\frac{19}{32}$	1 $4\frac{1}{8}$	1 $5\frac{15}{32}$	1 $6\frac{5}{32}$
October - -	1 $7\frac{23}{32}$	1 $4\frac{29}{32}$	1 $3\frac{5}{8}$	1 $4\frac{13}{32}$	1 6	
November - -	1 $7\frac{9}{32}$	1 $4\frac{5}{32}$	1 $3\frac{13}{16}$	1 $4\frac{27}{32}$	1 $5\frac{15}{16}$	
December - -	1 $5\frac{3}{32}$	1 $3\frac{7}{8}$	1 $3\frac{31}{32}$	1 $5\frac{1}{16}$	1 $6\frac{1}{32}$	
Average for year	2 $0\frac{3}{32}$	1 $4\frac{1}{32}$	1 $3\frac{19}{32}$	1 $4\frac{9}{32}$	1 $5\frac{1}{4}$	1 6 (9 months)

APPENDIX 71.

Memorandum No. 3, on "Note on Proposals for promoting a Gold Currency in India," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

The introduction of gold as the sole metallic unlimited legal tender, and the conversion of the rupee into a limited legal tender, involve a complete departure from established custom. It could not be expected that the change could be given effect to without difficulties, and it is necessary to consider carefully whether it offers advantages commensurate with the obstacles that would have to be surmounted and the risks that could not be avoided.

It is proposed to examine the scheme from the following points of view:—

1. Character of the objective.
2. Nature of disturbance involved.
3. Security of Government during process.
4. Cost.
5. Alleged defects in pre-war system.

Character of the objective.

In para. 8 of his memorandum on "A Gold Standard for India," Mr. Denning states that "undoubtedly the ideal to be aimed at is the system now in force in Great Britain, under which the Note is the sole full legal tender in circulation, and the gold value of sterling is stabilised by the statutory obligation imposed on the Bank of England to buy and sell gold at rates corresponding roughly to the par of exchange."

This "ideal" seems, however, to be rather lightly thrown over in the statement that "it is impossible to hope that conditions in India will for generations be such that a full legal tender metallic currency will be no longer necessary," or rather in the proposition treated as following therefrom, that a gold currency should be established. India has already the beginnings of the "ideal" system in (i) the accepted use of a token coin instead of a full value coin, (ii) the very widely accepted use of notes, and (iii) an unmistakable tendency in recent years to rely less on coin and more on notes. The expansion of the note issue has been one of the most satisfactory features in later currency developments. In particular it is worth noting the large proportion of 10-rupee notes in circulation.* The true wisdom seems to be to continue on the lines on which such remarkable progress has already been made.

These remarks do not imply that gold coinage should not be undertaken in India if the people of India desire that the gold which they import should be stamped in small units with the Government hall-mark of fineness and weight, and be available on occasion as legal tender. But there is all the difference between the admission of gold as legal tender but without an obligation to issue it except in return for bullion, and forcing the people away from a currency to which they are accustomed, and pressing upon them a new currency of a more costly character, whose free circulation it may be difficult to ensure. In so far as the Indian currency system involves the use of gold, the best place for the gold is in reserves, and it seems retrograde to propose for India a gold circulation which is now regarded as obsolescent in Europe.

It is worth considering how far, in the case of a country like India, there is any reality in contemplating the limitation of the legal tender quality of the rupee. It is apparently considered, and reasonably so, that 150 crores of rupees might be required in circulation if the rupee became a limited legal tender. If for any reason there was a return of currency in circulation, it may be assumed that the return will include at any rate a due proportion of rupees. In the case of a country like India, where cash transactions of a small amount form a large part of the daily business of the country, would it be a practicable thing for the Imperial Bank to refuse to accept rupees from other Banks or for Government to refuse to relieve the Imperial Bank of redundant rupee currency? It is suggested that even if the attempt were made to force a gold circulation and to limit the legal tender quality of the rupee, the rupee would still continue in practice to be an unlimited legal tender. Indeed it may be asked whether there is any substance in the conception of a limited legal tender rupee in the case of India where the rupee circulation is bound to play for an indefinite period such an important part in the economic life of the people.

The propriety of Government setting a term to the unlimited legal tender quality of the rupee in the case of a country like India also requires consideration.

Nature of disturbance involved.

The disturbing effects of the proposed plan are far-reaching.† In India the rupee has for generations been an unlimited legal tender. It seems that, if once the idea spread that this quality in the rupee is to be taken away, the result would be to bring the rupee

* On 31st March 1925 the circulation of Rs. 10 notes (Rs. 68·5 crores) formed 40·5 per cent. of the total circulation. The Rs. 10 and Rs. 5 notes formed 50 per cent. of the total circulation.

† It will, of course, affect territories outside India using the rupee.

into disrepute. It is admittedly not possible to form an accurate estimate of the number of rupees that will be presented for exchange into gold under the scheme suggested. All one can say is that the bullion dealers of India are not likely to miss the opportunity that so radical a change in the currency policy will afford. Their obvious interest will be to discredit the rupee and collect as many rupees as they can from all quarters for exchange, and it may be assumed that the peasantry will pay liberal commissions in the process. The limitation of the exchange to gold bars of 400 ozs., the value of which at 1*s.* 6*d.* the rupee is less than Rs. 23,000, would not give protection, as the point could be met by clubbing and the concerted operations of Indian dealers.

The possible effect of the offer to give gold for notes does not appear to be appreciated in the calculations regarding the amount of gold required to bring the scheme of a gold circulation into operation. The speculative element here is of the gravest possible kind. The other estimates—of 110 crores of rupees as the total amount likely to be presented, of 50 crores of gold as the initial stock, &c.—are (inevitably) not very securely based. But in this matter of the possible extent of the substitution of gold for notes, no estimate is possible at all and no practical limitation can be set.

No indication as to the time that might elapse between stage 1 and stage 2 is given. It is certainly possible that the scheme might have to be abandoned before it got beyond stage 1, that is, the stage in which gold bullion is being supplied for non-currency purposes. It is submitted that a scheme of currency reform of which the progress is so uncertain and of which the process is so extended—a most objectionable feature in itself—could only be justified if by no other means a sound system meeting the requirements of the country could be provided.

It is recognised that the large additional drain of gold to India over the ordinary demand, which is already large, might seriously affect gold prices, and it is suggested that it would probably be necessary to make special arrangements with the Bank of England and the Federal Reserve Board of the United States. It is difficult to form a view as to the future trend of gold prices, which turns largely on the policy that may be pursued by the great Central Banks. But with the gradual return of the nations of Europe to gold the markets for the metal are increasing, and the tendency may be for countries to add to their stocks as opportunity offers with the object of strengthening their note reserves. Is it safe to set aside altogether the possibility of a fall in gold prices, especially if the demand for gold was increased by additional requirements for India for the purpose of providing a gold circulation?

If the solution of India's exchange problem is to be essayed while world conditions are still unstable, it would seem inopportune to add to the risks by any action that might tend to cause a rise in the value of gold.

The Bank of England and the Treasury will, it is assumed, have the opportunity of expressing their views as to the effect that the scheme might be expected to have on the position of gold and sterling.

The attitude that the United States authorities are likely to adopt towards the proposal is a matter for conjecture, but there is one factor in the case which may be expected to prejudice them against it. The silver-producing interests in the United States are a powerful body, and the various Acts, ending with the Pittman Act, passed for their protection, suggest that they are not likely to view without dismay and protest the threat to the silver market involved in the suggested sale of approximately Rs. 200 crores of silver, or three years' production, within ten years. The proposal really means that the silver which the United States Government were induced to supply to India at a time of great emergency is to be thrown back on to the market. The reactions on China (including her imports from India) of influences tending to depress the price of silver continuously are also worthy of notice.

Security of Government during process.

It will be observed that the scheme contemplates that the sterling reserves should be used up and resort be had, if necessary, to external borrowing in order to secure the supply of gold to India. What would happen if at an early stage in the progress of the scheme India was affected by the unfortunate vicissitudes to which she is liable? An adverse trade balance would obviously suspend progress for the time being Additional external borrowing might become necessary, *pro tanto* diminishing the power of India to draw gold on the recovery. How far gold in India would be exported is uncertain. The presumption is that the return of currency for conversion into foreign exchange would tend to take the form of notes and silver rather than gold, and the attenuated reserves might be unequal to the strain. The position of the Secretary of State might be embarrassed. The credit of India might be prejudiced, as the confidence of investors would presumably be affected by the non-existence of the large sterling reserves hitherto maintained. In short, the possibility that India would find herself in serious difficulties during the 10 years spent in crossing the stream cannot be overlooked.

As regards the reserves, it is contemplated that during the early stage of the scheme the gold and sterling in the Paper Currency Reserve might be reduced to Rs. 56·9 crores, and apparently this would, either in its entirety or in the main, be held in sterling securities.

This low percentage (30 per cent.), of which at best only a small proportion would be gold, seems inadequate from the point of view of the convertibility of the note and the maintenance of exchange.

Sir Basil Blackett, with the object of "reducing the cost" of the scheme, suggests that the reserve might eventually contain a metallic backing of about 22·5 per cent., and that the gold and sterling assets might amount to about 50 per cent. Here two points may be noted :—

(1) The metallic percentage is far lower than has hitherto been regarded as provident for India, and is even lower than that recognised by the United States of America. The right to require conversion of notes into gold may lead on occasion to heavy encashments of notes by the public, possibly heavier than when payment normally took the form of rupees. There should be no possible question as to the adequacy of the available amount, which should be determined with reference to the possible obligations of the reserve and not with reference to the cost of a scheme for introducing a gold circulation.

(2) After the gold circulation is established, the active circulation would apparently, on the data assumed, consist of about 190 crores notes, 50 crores gold, and 150 crores of rupees, as compared with 190 crores of notes and 200 crores of rupees under a gold exchange standard. It has been suggested above that, under the projected plan, the rupee will in practice continue to be used as an unlimited legal tender in much the same way as at present. A reflux of currency from circulation will presumably comprise at least its due proportion of rupees, as the tendency will doubtless be for such gold as may be functioning as currency to be retained, as far as possible, by the public. In effect, the reserves will have to guarantee not only the exchange value and the internal convertibility of the note, but will also have to support a rupee circulation of about two-thirds or three-quarters as large as that now functioning as money. The Indian official memoranda make no provision for the rupees outstanding. Possibly the view taken is that the redemption of a certain quantity of rupees in gold will have removed the risk of redundant rupees or that a reflux of gold will provide additional support to the exchange. It is doubtful how far assistance will be forthcoming from a return of gold; largely issued to take the place of rupees now forming a store of value. But it is evident that, if the total currency is at any time redundant and a contraction is necessitated to reduce the Indian price level to that of external gold prices, this contraction must be effected on the active circulation, the rupees in which will presumably contribute their quota to the necessary aggregate withdrawal. The size of the reserves must therefore have regard not only to the note issue but to a possible return of part of the unbacked rupee circulation also.

Cost of the Scheme.

Any estimate of cost must be largely conjectural, and would be liable to be upset if the demand for the conversion of rupees and notes into gold should exceed anticipation, or if it was found expedient to hold a larger gold reserve throughout, or if the sales of silver had to be spread over a longer period than proposed. In any case, it would seem from the calculations in the note annexed to this paper that a scheme framed on the lines of Mr. Denning's note would entail, apart from the transitional expense, a permanent charge, which may be conservatively put at about Rs. 3 crores per annum and might in certain circumstances exceed this amount. India is not a country that can afford luxuries. The administration is held up on all sides by paucity of funds; yet it is seriously suggested that India might be asked to incur, for the purposes of supplying currency which would perhaps largely go underground, a high capital loss and a substantial recurring charge. The currency authorities in the United Kingdom have formed the view that it is inexpedient to reintroduce a gold circulation into the United Kingdom, a relatively rich country habituated to such a currency before the war, the fact being that such a currency would be difficult to obtain in present circumstances and would be too expensive.* Can India afford it?

One point in the Indian memoranda calls for further remark with reference to the cost question. By reconstituting the Paper Currency Reserve with a lower proportional backing of real assets and reducing the non-interest bearing proportion of those assets, it is sought to lessen the cost of introducing a gold circulation. Unless the reduction of the real assets and the non-interest bearing amounts are themselves made feasible by the introduction of a gold circulation, it does not seem correct to regard these factors as a source of saving. Obviously, if the real assets are excessive under to-day's conditions and admit, either in the aggregate and/or as regards non-interest bearing amounts, of safe reduction, then the apparent saving from associating the reduction with the introduction of a gold circulation is to that extent illusory.

Alleged defects of pre-war system.

The difficulties in the way of the scheme are formidable enough and ultimate success is problematical. Before the Government sets its hand to so precarious a task, it is necessary to examine closely the grounds on which the new departure is deemed desirable.

* Cf. paras. 42 and 43 of Report of Committee on the Currency and Bank of England Note issues, Cmd. 2393/1925.

The proposal to make gold the principal metallic medium of the currency apparently arises from a desire to remove what are described as "the main defects of the pre-war currency and exchange system," which are referred to in the remarks below:—

(A) "*The maintenance of the system was dependent on the price of silver remaining at such a figure that the bullion value of the rupee was not higher than its exchange value.*"

The stabilised 1*s.* 4*d.* rupee, whose effective life covered about 20 years, undoubtedly witnessed remarkable economic progress in India, and, apart from the confusion caused by the war, there seems no reason to doubt that it would have endured to this day. The war broke down the gold standard in countries where it appeared solidly established, and it certainly cannot be assumed that if India had been on a gold standard with gold currency when the war began she would have fared better than she actually did. Had India been on such a standard, and had it been possible or expedient to maintain it (regarding which some remarks follow), she would have been exposed to the full violence of the oscillations of gold values during the war and post-war periods. It is reasonable to hold that any rise in the price of silver to a point which would threaten a 1*s.* 6*d.* rupee would almost certainly be due to a catastrophic depreciation of the purchasing power of gold, and would be an element in a general rise of prices of an untoward kind. The evils of rising prices in the case of India were discussed by the Babington Smith Committee (paras. 47 and 48), and have been recognised fully in the conduct of recent exchange policy by the Government of India. It might well be that, if the economic history of 1914–20 were repeated, India's policy ought in her own exclusive interest to be directed to staving off some of the effects of gold depreciation by a modification of her exchange.

It should also be noted that, with 150 crores still in circulation, whether the rupee is unlimited legal tender or not, a rise in the price of silver above the bullion value of the coin might in certain circumstances create a situation resembling that which occurred during the war.

The fact that the 1*s.* 4*d.* rupee was broken in the late war is not to be regarded so much as a defect of the gold exchange standard as of a defect of gold as a basis of value at the mercy of Governments which, at a time of national emergency, may be constrained to sacrifice currency ideals normally held dear. Assuming that gold is the best practicable standard of value that the wit of man has hitherto found it feasible to adopt, it must be recognised that it is not perfect and that no country can escape from the risks of these imperfections whether its standard is based on a gold circulation or on the maintenance of its exchange at a fixed gold parity without such circulation. It is perhaps worth observing that the introduction of a gold currency in circulation militates against the power to promote stability of internal prices at exceptional times when gold prices may be undergoing violent disturbance. In such a case action would presumably take the form of the suspension of the obligation to buy gold at the Mint par and the conversion of the standard coin into an over-valued gold token.

(B) "*The rupee was in reality linked to sterling only, and the system ceased to be a gold exchange standard as soon as sterling depreciated.*"

When, as in pre-war days, gold and sterling were synonymous, and the Government of India was under an obligation to receive gold coin at a fixed price, it seems difficult to contend that the rupee was linked to sterling only. The second part of the statement does not appear to amount to more than an assertion that when sterling depreciated, the authorities for a time did not, in fact, endeavour to dissociate the rupee from the fortunes of sterling.

But some further observations seem required.

(1) If, for purpose of illustration, the rupee had been linked to the dollar at a fixed ratio, and it had been possible to maintain this ratio during the war years and subsequently, it may be asked whether India would have benefited thereby. Adherence to the fixed ratio would have exposed her to the extremes of the fluctuations in the purchasing power of gold, and would have prevented the Government of India from affording such relief as it has now been possible to afford by permitting the rise to 1*s.* 6*d.* gold. The argument may, perhaps, be even more clearly appreciated if one imagines what would have happened if the monetary policy of the United States of America in 1920 had been directed towards the maintenance of the then level of gold prices.

(2) In framing a permanent currency policy for India it is suggested that due weight must be assigned to the probable identity in the future of sterling and gold. The special character of Indian external trade, which is mainly financed in sterling, gives force to this consideration.

(3) If India had enjoyed a gold standard based on a gold circulation at the outbreak of war, it is open to question what her subsequent policy would have been. When the existence of the Empire was in jeopardy and India's own future hung in the balance, would it have been consistent with India's own interest to have sought to add to the drain on the limited supplies of gold available when its conservation was a vital matter for the purpose of employment in foreign quarters? If, under some national stress or emergency, sterling were again to become divorced from gold, the action to be taken by India cannot be prejudged, but would have to be determined in the light of the actual circumstances.

(C) "*A fall in the rate of exchange was prevented by the sale of Reverse Councils, but Government were under no statutory obligation to take such action.*"

The pre-war exchange system admittedly did not impose on Government a statutory obligation to redeem local currency by payment of international exchange. This, however, must not be interpreted to mean that the Government is not prepared to undertake formal and public commitments on the subject. (Compare announcement issued in connection with Babington-Smith Committee's Report.) This point is referred to in the last paragraph of the Memorandum No. 5 on "Remittances," and the remedying of the "defect" does not involve the removal of its unlimited legal tender quality from the rupee or the promotion of a gold circulation.

(D) "*When exchange dropped to the lower gold point, there was no automatic decrease in the currency tending to strengthen exchange, but such decrease depended on the action of Government.*"

It is well understood that under the gold exchange standard the employment of the Gold Standard Reserve in connection with the sale of reverse Councils for the support of exchange, or the use of the sterling assets of the Paper Currency Reserve for replenishing the Secretary of State's balances, involve a corresponding currency contraction in India. It is a legitimate question to ask whether this view was embodied with due formality in the currency constitution, but there is no reason why, under the gold exchange standard, the same influences for contracting the currency should not be brought into operation as under the gold standard in the ordinary accepted sense of the term.

How far the element of discretion inherent in the Indian system as hitherto applied is open to criticism is not so clear. It is part of accepted theory that contraction of the internal circulation should be the regular sequel of withdrawals of sterling from the reserves, and an exception would presumably only be made owing to some such overriding consideration as the danger of creating an excessive stringency in the Indian market.*

Under the gold standard, continued losses of gold by the Bank of England force it to take steps for a general contraction of credit in order to protect its reserves, but it is perhaps a matter of opinion as to how far action can be regarded as "automatic." The stage at which measures are taken rests within the discretion of the Bank, and it is obvious also that the course of events depends in part on the readiness of the large lenders of money not to counter the policy of the Bank by, for example, decreasing the cash ratio on which they conduct their business. In fact, it is hardly possible to conceive any system based on credit that is purely automatic. The efficient working of the gold standard depends, as did the efficient working of the gold exchange standard, on the wisdom and judgment of those in authority. This is apparent not only from recent events in Europe, but also in a noteworthy manner from the action of the Federal Reserve Board in America, who have had to take special steps to prevent a great influx of gold from exerting on prices its normal influence.

(E) "*As the currency reserves were divorced from the banking reserves, effective regulation of the money market was impossible.*"

The implications of the observation will be referred to in another connection. But in any case the so-called "defect" presumably is due to the fact that the note issue was controlled by the Government and not by the banking authorities. It is not traceable to a gold exchange standard as such.

If an attempt is made to summarise the above comments regarding the five "defects" of the gold exchange standard, it would seem fair to say that (E) is a separate issue concerning the character to be given in present circumstances to the functions of the Imperial Bank; that as regards (C) and (D) there is nothing in the gold exchange standard as such which precludes the reproduction of conditions corresponding to those applying to the gold standard as ordinarily understood. (A) and (B), which are connected, are obviously suggested by recent experience examined through war-tinted spectacles. The removal of "defect" (B) does not require a gold circulation. "Defect" (A) is theoretically inherent in any token coin. The problem it occasioned during the war arose not from a defect of the gold exchange standard, but from an imperfection in gold as the basis of value. Indeed these two so-called defects in the gold exchange standard were altogether latent before the war, and no practical question would probably have now emerged in regard to them were it not for the experiences of recent years.

It is, of course, right and desirable that whatever currency system is given to India, it should be made proof against eventualities, so far as these are within the range of reasonable contingency; but the war, with its devastating effects on currencies generally, undermined even the basis of the gold standard. In laying down a currency constitution for India, due weight should be attached to the altogether exceptional character of the war period.

On a review of the main considerations involved it is suggested—

(1) that from the point of view of the interests of India the objective of a gold circulation and a limited legal tender rupee is wrongly conceived, and that the scheme would, in all probability, fail to achieve its purpose;

* Compare the position that arose in 1920 in the period when an attempt was being made to give effect to the recommendations of the Babington-Smith Committee.

(2) that the arguments directed against the gold exchange standard do not justify the rejection of the general currency scheme which served India well before the war; and

(3) that the drawbacks inherent in the scheme for a gold currency altogether outweigh any possible benefit to be anticipated from its promotion.

If avoidable risks are taken by the authorities and needless expense on what would be a serious scale is incurred, India might too late have cause to appreciate the warning of the opening lines of Dr. Leyden's "Ode to an Indian Gold Coin":—

"Slave of the dark and dirty mine!
What vanity has brought thee here?
How can I bear to see thee shine
So bright whom I have bought so dear?"

Pre-war experience suggests that, if India must for long years to come have a full legal tender metallic circulation, the requirements of the country, including the desideratum of stability, can be met by an appropriate development of the gold exchange standard. To suggest that the only way of remedying the defects in the pre-war currency system involves the reduction of the rupee to a limited legal tender and the forcing of a gold circulation is to ignore the fundamental causes which led to the breakdown of the gold exchange standard in the course of the war.

NOTE.

The general result of the scheme for introducing a gold currency on the lines suggested by Mr. Denning appears to be as follows:—

(*Figures in crores of rupees.*)

	Gold.	Silver.	G. of I. securities.	Sterling securities.	Gross note circulation.	Gold Standard Reserve.	Real value* of aggregate assets.
Assets of Government, 30th Sept. 1925	29·7	90·1	43	26·7	189·5	53	154·5
Assets on completion of scheme	56·9	—	90	42·6	189·5	—	99·5
							Loss 55

* Valuing silver at 24*d.* per oz. and Government of India securities at nil.

The transaction has involved the exchange of Rs. 200 crores of silver for gold. It is postulated that the sale of silver has produced Rs. 100 crores gold, leaving a deficiency of Rs. 10 crores needed to meet the public's demand for gold exchange. This would reduce the Gold Standard Reserve to Rs. 43 crores, which is required to raise the gold and sterling holdings in the Currency Reserve from the initial to the ultimate amount. The balance of the loss in the reserve (Rs. 90 —43 crores) is made good by writing up the Government of India's debt to the reserve from Rs. 43 to Rs. 90 crores.

The loss shown in the table above—namely, 55 crores—which is the true capital loss, represents the 55 crores of assets which the Government of India will have sacrificed in giving the public 110 crores of gold in return for rupees, which on sale as silver will realise 55 crores only. It is claimed in the Memorandum that the new system can be safely worked with this reduced quantity of assets, that a part of the reduction of total assets can be effected by diminishing the holding of metal, and that there is no *effective* loss except in so far as the interest-yielding assets also have to be reduced. Thus Mr. Denning, as shown in the foregoing figures, puts the reduction of interest-yielding assets at about 37 crores and the resultant loss of revenue, taking interest at 3 per cent., at 112 lakhs per annum.*

The argument seems to amount to this: that a scheme of expenditure need not be regarded as costing money if the funds to meet the expenditure are readily available and are not at the moment yielding any return. There are at present some 40 crores (nominal value) of temporarily redundant rupees still held in the Paper Currency Reserve as the *remanet* of the last period of depression. To this extent the present metal holding is excessive and could safely be replaced as regards rupees 40 crores (nominal amount) by 20 crores (in real value) of interest-bearing securities obtained by selling the surplus rupees, and by substituting 20 crores more of new Book Debt. But this, if it were worth† doing at all, could also be done while retaining the present system. Thus the proper comparison to be made in regard to the interest-bearing assets under either system is one between (*a*) those now held plus an additional 20 crores and (*b*) those which would be held on a gold standard system. On the postulates of the Memorandum the difference would be 57 crores.

* It is not proposed to analyse here in detail Mr. Denning's estimate of the loss in the transitional period. Examination of the process, however, suggests that the figure will materially exceed his estimate of Rs. 165 lakhs.

† Whether it would be a paying speculation to effect the replacement is a matter of judgment and calculation. It seems likely that the loss on sale of silver now and repurchase later when further silver was again required for currency purposes would outweigh the interest gained in the meantime.

As the securities in the Gold Standard Reserve, amounting to 53 crores, at present yield an average return of about $4\frac{1}{2}$ per cent., the rate of interest for the purpose of calculating the loss entailed in sacrificing 55 crores can hardly be taken at less than 4 per cent. The annual loss may thus be put at $2\frac{1}{4}$ crores a year, of which $1\frac{1}{2}$ crores is interest now being earned and contributing to the balancing of India's budget, and the remainder would accrue as the rupees now surplus were gradually sold and replaced by investments.

This understates the potential interest loss, as rupees absorbed by the public in the ordinary course will be taken not at their bullion, but at their nominal value. The 40 crores of surplus rupees thus represent potential earning power of an additional 40 crores of sterling investments, assuming that the holding of gold remains unchanged.* When the silver holding is reduced by absorption to Rs. 50 crores, the reserves of Government would be as follows :—

(*Figures in crores of rupees.*)

Gross circulation.	Gold.	Silver.	Sterling securities.	G. of I. securities.	G.S.R. sterling securities.	Interest earning assets.
189·5	29·7	50	66·8	43	53	119·8

The interest-yielding assets amount to Rs. 119·8 crores as compared with Rs. 42·6 crores under the Gold Currency scheme, i.e. an excess of Rs. 77 crores. If interest on Rs. 53 crores is taken at 4 per cent., and on Rs. 24 crores at, say, 3 per cent., the aggregate interest loss works out at about Rs. $2\frac{3}{4}$ crores per annum.

Something must also be added for loss in respect of future profits on coinage. These accrued from 1900–15 at the average rate of $1\frac{3}{4}$ to 2 crores a year, and though a circulation of 150 crores† of rupees will itself need maintenance, the future loss from diminished profits may be taken at $\frac{1}{4}$ to $\frac{1}{2}$ crore a year. On the whole, the permanent loss to India as the result of adopting a scheme for putting (?) 50‡ crores of gold coin into circulation can scarcely fall short of 3 crores a year, besides an indefinite and incalculable amount depending on the extent to which the promotion of a gold circulation checks the future natural growth of the note issue (cf. para. 54 of Chamberlain Commission Report).

Sir B. Blackett in his final Minute (paras. 22 and 23) alludes to two possible methods of "reducing the cost," viz. (1) a silver import duty and (2) the operation of the reconstituted Paper Currency Reserve on a smaller metallic basis and therefore a larger basis of interest-yielding securities than that suggested in Mr. Denning's Memorandum. The suggestion that a new tax (and in passing, it may be noted, a very controversial tax) can reduce expenditure is rather odd. The tax will tend to obscure the true cost of the scheme, i.e. the enhanced sums received for the sale of rupee-silver in India will include an element which is properly to be regarded as import duty.

As regards Sir B. Blackett's second expedient, there is, of course, wide scope for difference of opinion on such questions as those of the total strength of a currency reserve or its distribution between coin and investments. But those who would favour a complete departure from conservative precedent in propounding a scheme for a Paper Currency Reserve for India under a gold standard might, it is thought, find equal justification or the same departure in connection with a gold exchange standard. It is difficult to maintain that a reserve, which has to support a gold currency and indirectly a still considerable rupee currency as well as the additional risk of a turn-over from notes to gold, will not be in need of very great strength and liquidity of resources. As has been previously pointed out, there is no true saving attributable to the project of a gold circulation in running the new reserve on a smaller body of resources if the same thing could be done with equal safety, or no greater risk (according to the point of view), under the present system.

There is, of course, an element of true economy in a gold currency in so far as it produces, by the return of gold coin from circulation, the gold for providing sterling credits in times of depression. The point opens up a rather wide question, but it will perhaps suffice to note here the very great probability that, with rupees circulating to three times the value of gold and being, as compared with the gold, "bad money" rather than "good money" (to use the terms of Gresham's Law), any metallic returns of the circulating medium will be predominantly in the form of rupees.

* The process may be illustrated by comparing the position of the Paper Currency Reserve on 30th September 1925 and 22nd January 1926, as below :—

(Gold and sterling securities are valued at Rs. $13\frac{1}{3}$ = £1, and all figures are in crores of rupees).

	Gross Note circulation.	Gold.	Silver.	Rupee securities.	Sterling securities.
30th Sept. 1925	189·5	29·7	90·1	43·0§	26·7
22nd Jan. 1926	190·8	29·7	82·4	40·0§	38·7

§ Balancing figure.

† About two-thirds of the present estimated rupee circulation.

‡ Out of 110 crores of gold to be issued the first 50 or more are to be in bullion form.

APPENDIX 72.

Memorandum No. 4, on "Transfer of the Note Issue to the Imperial Bank, and connected Questions," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

The following memorandum relates to the scheme for the future regulation of the paper currency on the assumption that India continues on a gold exchange standard, as set out in paras. 7–10 and 16–18 in Mr. Denning's memorandum.

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1. It may be accepted that, unless the existing Government note issue is replaced by a bank note issue, there is relatively little to be done in the way of relieving Government of its responsibilities in regard to currency control or of increasing the duties of the Imperial Bank in connection with the Indian currency system. When the Imperial Bank was established in 1921 it was not at the time within the scope of the scheme of the promoters of the amalgamation, or of the Government of India, that the Bank should become a bank of issue;* but assuming that the Commission are satisfied, from the evidence taken in India, that no untoward consequences are to be expected from the replacement of a Government note by a bank note, the way is open to a number of possibilities.

2. The following points of principle may be noted at the outset:—

(1) Apart from any considerations arising out of the exceptional conditions of India, there are decided advantages, subject to proper safeguards, in relieving the Government of India of certain direct responsibilities in respect of currency management.

(2) The Imperial Bank is not a Central Bank in the sense in which this term is ordinarily understood. The main business of the Imperial Bank is understood to be concerned with ordinary commercial banking operations throughout India, and the recent large increase in the number of its branches, which is a sequel of the amalgamation, emphasises this aspect of its business.

The question has two sides:—

(*a*) From the Government's point of view it is necessary to be satisfied that the Bank will be proof against the possibility that the discharge of its duties towards regulation of the currency may be affected by its interest as a trading organisation working for profit.

(*b*) From the point of view of other banks in India, Government must consider whether the Bank competing for business throughout the country is to be placed in such a paramount position *vis à vis* its competitors as must result from the control of the note issue in addition to the holding of the Government balances.

In this connection it is worth while to refer to the part that the Government balances play in the conduct of the Bank's business.

Statistics are included in Appendix I showing the assets and liabilities of the Imperial Bank at the end of each quarter since its constitution in January 1921 and monthly since January 1925, and percentages are included in the last three columns showing the proportion of cash to liabilities, the proportion of Government deposits to cash, and the proportion of public (i.e. Government) deposits to other deposits. The high proportion of the public deposits to other deposits during considerable periods in 1924 and 1925 should be noted. The statistics may be compared with corresponding figures for the Bank of England in Appendix II.

It will also be observed that the amount of the Government deposits has tended at times to form an exceptionally high percentage of the Bank's cash, and on numerous occasions in the course of the last 12 months the Bank's total cash has been substantially lower than the amount of the Government deposits.

The question arises whether it is practicable and expedient in the present-day Indian economy to provide for the creation of a Central Bank in the strict sense, that is a bankers' bank, entrusted with Government balances and the note issue, engaging in rediscount business, authorised to buy and sell securities or bullion, but generally not competing with other banks for ordinary business. The creation of such a Bank would presumably involve a splitting of the functions now discharged by the Imperial Bank. It is suggested that the Imperial Bank with its established position is the best, and perhaps the only possible, organ for promoting the development of banking habits throughout India. If it is to continue its pioneer work as a commercial bank, the natural course, assuming that the difficulties can be overcome, would seem to be in the direction of creating a new Reserve Bank, which would take over the central banking duties now discharged by the Imperial Bank along with any

* In referring to this question in 1921 the Government of India remarked: "When a stable policy has been evolved and currency conditions have settled down, and when the management of the Paper Currency in India will consist of a more or less routine application of authoritatively established principles, then we think that the employment of the Bank as our agent in this matter might well be favourably considered."

additional banking and currency functions now discharged by Government that may be deemed suitable for transfer to the Bank. The constitution of such a Bank would naturally have to provide for the due safeguarding of Government's interests.

The memoranda prepared by officials of the Government of India do not refer to any possible developments on the lines alluded to in the preceding observations. The remarks that follow have therefore been drawn up on the hypothesis, apparently assumed in the Indian memoranda, that the general character of the Imperial Bank will not be materially changed.

(3) Owing to the dual character which the Imperial Bank would have if, without any substantial change being made in its functions, it were entrusted with the control of the note issue, it is necessary to ensure that the Government should have an effective voice in regard to the higher financial policy of the Bank, though the management of its day to day business would continue to rest with the Bank's officers.

The adequacy of existing arrangements in regard to Government intervention (*vide* section 14 of Agreement with Bank) will no doubt be considered. The Governor-General in Council is entitled to issue instructions to the Bank in respect of any matter vitally affecting the financial policy of Government or the safety of Government balances, and the representative of the Government of India on the Board at present has a right of suspensory veto in regard to any action prejudicial to Government's interests under the above-named heads. This should, of course, continue, as should also the provision that the managing governors are to be appointed by the Governor-General in Council after consideration of the recommendations of the Central Board and should hold office for such term as Government directs. The management of the note issue might perhaps be specifically mentioned as one of the subjects in regard to which Government should be entitled to issue instructions to the Bank.

A further suggestion may be mentioned in this connection. Present indications point to an increasing association between the important Central Banks for the purpose of controlling the value of gold through their credit policy. India, as a creditor country with a large power for absorbing gold, is an important factor in the case. Liaison has already been established between the Bank of England and the Imperial Bank through the Advisory Committee in London. It might help the interests of Government if contact were established between the Secretary of State in Council and the Advisory Committee.

(4) It appears necessary that whatever arrangements are made regarding the functions of the Imperial Bank in respect of the note issue, they should not have the effect of impairing the freedom of Government to deal with its own balances as it thinks fit. There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind. It seems cardinal that if Government deposits funds at a bank it should in a general sense be free to deal with those deposits as it thinks fit. The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead, and if the exchange and other circumstances are favourable it must be open to the Secretary of State to require remittances to be made to London as he deems expedient. It appears impossible for the Secretary of State, who has constitutional and statutory responsibilities, to be satisfied with an obligation undertaken by a bank, however eminent, to keep him supplied with funds. The commitments which the Secretary of State has to meet in London to holders of India sterling debt and others are his commitments, and it is desirable that the Secretary of State should retain in his hands the power to arrange his finance as he thinks expedient in the light of ever-changing circumstances.* The question of the agency for the transfer of funds from or to India is of course an entirely distinct issue.

(5) There appear to be strong arguments in support of the view that the Gold Standard Reserve should be maintained as a separate fund in the hands of Government. The Secretary of State, who under the existing constitution is responsible to Parliament for the good government of India, enjoys statutory borrowing powers, which may be brought into play in the ultimate resort in the discharge of his duty as custodian of the Indian exchange. It would seem scarcely consistent with his present responsibilities that he should hand over the control of the reserve, which must be employed for the support of the exchange, to another authority. Further the policy to be pursued in regard to the remittance of Government balances from and to India, in regard to which it is suggested that the control of the Secretary of State should be beyond question, has a close bearing on the exchange and the responsibility for its maintenance.

This line of reasoning accords with the view regarding the scope of a State Bank, expressed in the annex to the Report of the Royal Commission of 1913–4 (p. 78), that "the custody of the Gold Standard Reserve and the ultimate responsibility for the maintenance of exchange must remain, in the most direct manner, with the Secretary of State."

(6) The conversion of the Government note issue into a bank note issue, and the general modelling of the Indian exchange arrangements, so far as may be, on the lines familiar in

* It is worth noting in this connection that the Secretary of State's balances in London earn interest, which in recent years has amounted to about £400,000. The existence of this important source of revenue will doubtless not be overlooked in any proposals that may be made in regard to the Home Treasury balances.

this country, must not be allowed to obscure not only the difference between the character of the Imperial Bank and the Bank of England, but the difference between London and Indian monetary conditions generally. An alteration of Bank rate in London sets in motion a number of powerful forces which influence the exchange and the level of internal prices. Owing to the organic unity of the credit system on which business is conducted in the United Kingdom, the reactions of the Bank policy are at once felt throughout the country (and abroad); but in India, where the credit system is comparatively undeveloped, and the money market is less organic, changes in the Bank rate have not the same vital force.* Presumably it is to this factor that the well-known difficulty of effecting deflation in India is ultimately to be ascribed. Occasions may arise when this problem may have to be tackled with a high degree of independence and resolution. It is suggested that the Imperial Bank will be fortified in taking the steps that may be necessary if the ultimate authority of the Government is adequately preserved.

3. For the above reasons it is proposed, in discussing the scheme for the creation of a bank note issue for India, to distinguish, so far as possible, between the Bank's responsibility for the convertibility of the note and the Government's responsibility for the maintenance of the exchange. It will now be convenient to refer to the different heads under which the scheme is set forth in para. 7 of Mr. Denning's Memorandum. On the whole, and subject to the comments that follow, the system outlined seems generally suitable and retains with appropriate changes the guiding factors which serve to secure exchange stability under the pre-war system.

(A) *Gold coin, bank notes, and silver rupees to be unlimited legal tender.*—The question of gold is referred to below.

(B) *Government to be under an obligation to give gold coin in exchange for gold bullion on payment of a seigniorage to cover minting charges.*—Presumably this does not mean that Government must maintain a stock of coined gold, but merely that it will undertake to convert bullion presented into coin. Such bullion if presented by the Imperial Bank would presumably remain part of the Paper Currency Reserve during the process of coinage.

(C) *The Imperial Bank to be under an obligation to buy gold at a fixed price.*—This reproduces the obligation formerly devolving on Government to give local currency in exchange for sovereigns, the development being that local currency will be given in exchange for bullion to be coined as required under (B).† The amount of gold going to India would presumably be carefully controlled by means of the standing offer, made with the approval of Government, to sell rupees at a sterling price corresponding with the upper gold point.

(D) *Bank notes to be payable on demand in rupees or gold coin at the option of the Bank, subject to the right of holders of notes of the denomination of Rs.* 10,000 *to demand payment in foreign exchange at a price corresponding to lower gold point.*—The object of this provision appears to be to give the Bank an incentive to maintain the exchange value of the rupee, but there is something artificial in making a differentiation between one category of note and others, and it is suggested that the necessary incentive to the Bank might be more appropriately given in another way, which would emphasise the fact that the ultimate responsibility for the exchange value of the rupee rests with Government, while the convertibility of the note is the responsibility of the Imperial Bank. The object to be aimed at is to secure that, as at present, the sterling (and if necessary the gold) in the Paper Currency Reserve should be used for contraction of the circulation and thus indirectly for the support of the rupee, and that these resources, if thought desirable, should be drawn upon before recourse is had to the Gold Standard Reserve. It would seem that this aim would be achieved if the Imperial Bank were placed under an obligation to sell to the Government of India, if they should so require, against payment in India, gold at par or sterling at lower gold point up to the limit of such resources in the Currency Note Reserve.‡

(E) *The Bank to be under an obligation to give silver rupees or notes on demand in exchange for gold coin.*—This is understood to mean that the option is with the Bank.

* Compare Mr. J. M. Keynes, Indian Currency and Finance, 1913:—"The Presidency Banks publish an official minimum rate of discount in the same manner as the Bank of England. As an affecting influence on the money market, the Presidency Bank rates do not stand, and do not pretend to stand, in a situation comparable in any respect with the Bank of England's. They do not attempt to control the market and to dictate what the rate ought to be; they rather follow the market, and supply an index to the general position."

† Prior to December 1906 the Government had been prepared to receive gold bullion in exchange for rupees.

‡ The proposal would operate as follows:—Exchange, it may be assumed, reaches lower gold point. The Government require the Bank to place, say, £1,000,000 sterling held in the Paper Currency Reserve at the credit of the Home Treasury in London against a debit of Rs $1\frac{1}{3}$ crores to the Government account in India. The Bank then withdraws from its cash balance Rs. $1\frac{1}{3}$ crores notes which are cancelled, thus effecting the appropriate currency contraction. The sterling would be sold, if exchange remained at gold export point, by the Imperial Bank, as the agents of Government, to remitters, or would be available for meeting the Home Charges.

It appears unnecessary to contemplate the issue of drafts by the Imperial Bank payable in countries outside Great Britain, as the United Kingdom may now be presumed to be on a gold standard, and Indian trade is normally financed through London.

(F) The proposals Mr. Denning makes for the constitution of the Paper Currency Reserve are coloured by the idea of stimulating the use of gold in India. But the holding of unnecessary gold is costly, and surrenders a large part of the advantage that India is in a position to derive from the close association of her currency and finance with sterling now that the British £ is again on a gold basis. This question is referred to further in para. 4.

(G) The Gold Standard Reserve stands at Rs. 53 crores, which would seem to be adequate for any reasonable emergency, as together with the sterling securities in the Paper Currency Reserve there would be available, assuming nothing abnormal occurs before stabilisation is introduced, Rs. 80 crores or more for the purpose of contracting the circulation and influencing the exchange.

The size of the reserves must presumably be based on the view taken of the possible contraction of currency (with, of course, an ample margin) that might be required for regulating the monetary supplies of the country so as to bring the internal price level into accord with those of other gold standard countries. The figures given in para. 9 of Memorandum I regarding currency expansion suggest that a normal average of something under Rs. 25 crores a year might be taken to represent the annual demand for fresh currency. The sterling securities, therefore, appear adequate, altogether apart from the gold, to draw off three years' average absorption. Light is also shed on the problem by the figures of the deposits in India of the Imperial Bank, Exchange Banks, and larger Indian Joint Stock Banks, which in recent years were as shown in the following table :—

Deposits in Banks in India.

Year.	Imperial Bank of India.	Principal Indian Joint Stock Banks.	Exchange Banks.	Total.
	Rs. crores.	Rs. crores.	Rs. crores.	Rs. crores.
31 Dec. 1919	75·94	58·99	74·36	209·29
„ 1920	87·05	71·15	74·81	233·01
„ 1921	72·58	76·90	75·20	224·68
„ 1922	71·16	61·64	73·38	206·18
„ 1923	82·76	44·43	68·44	195·63

It is suggested that a far smaller deflationary influence than is represented by the sale of anything like Rs. 80 crores of reverses, would suffice, in any circumstances that can reasonably be foreseen, to readjust Indian currency and credit for the purpose of maintaining the parity of the internal price level with gold prices outside. Indeed it may be asked whether the contraction, which the present reserves admit, could be effected without jeopardising the stability of the Indian money market as a whole.* It will, in any case, be some years before coinage of silver is again undertaken, and if things go well in the next few years, the sterling assets of the Currency Note Reserve may be expected to grow, in which case it would probably be safe to use the coinage profits either in whole or part for the reduction or avoidance of sterling debt, a measure which conserves borrowing power and indirectly acts in support of the exchange.†

(H) The proposed arrangements for the supply of silver seem suitable, subject to the policy pursued at any particular time having the approval of the Government's representative on the Board of the Bank. It is assumed that time would be allowed for coinage before the Bank demands rupees in exchange for the bullion.

(I) The view has already been urged that the control of remittances should continue in the hands of Government, and the question as to the method of effecting the remittances is separately discussed in Memorandum No. 5.

4. It is now convenient to consider the reconstitution of the reserve on the assumption that the rupee will be stabilised at 1s 6*d*., and on the basis of the figures of 30th September 1925, used in the Indian memoranda. The Paper Currency and Gold Standard Reserve stood at that time as follows :—

(*Figures in crores of rupees.*)

Gross circulation.	Gold.	Silver.	G. of I. securities.	Sterling securities.	Gold Standard Reserve.
189·5	29·7	90·1	43·0	26·7	53
	Percentage of gross circulation.				
	15·6	47·6	22·7	14·1	

This table assumes that the gain on revaluation of the gold and sterling assets in the Paper Currency Reserve will be applied to strengthening the weakest link, that is, the

* An interesting light on the deflation problem in India is suggested by the figures of deposits in India in 1919 and 1920. The year 1920 was the year in which the Government were seeking to contract the currency, as far as possible, by sales of reverses aggregating £55 millions. Yet the Bank deposits actually increased.

† *Cf.* Sir H. Howard, p. 30, App. I, Vol. III, Appendices to Report of Babington Smith Committee. "Possibly after a figure of £40 millions has been reached, half of any subsequent accretions could profitably be diverted to capital expenditure; while when a £50 millions figure is attained, it would in my view be safe to utilise for capital expenditure all the receipts, which would otherwise accrue to the Reserve."

Government of India securities, a natural operation which goes towards undoing the writing-up of those securities when the reserve was valued on a 2*s*. basis in 1920.

There cannot be a question but that the reserve is of great strength. The metallic ratio exceeds 60 per cent. The sterling and gold form approximately 30 per cent. If the silver is valued on the basis of 30*d*. per oz. (standard), the real assets in the reserve represent nearly 60 per cent. of the gross circulation. The silver holding is higher than is necessary, and it is worth considering whether steps should be taken to reduce it somewhat by gradual sales, the proceeds being converted into sterling securities. In such a case the natural course would be to finance the transaction from the Gold Standard Reserve to which the coinage profits were credited. But the strength of the Currency Reserve is such that as a new start is in contemplation it would be permissible to finance the loss by increasing the Government of India's debt to the reserve. Obviously the proportions in which these two resources might be invoked offer room for different opinions.

Ultimately, no doubt, as rupee absorption continues, silver would have to be repurchased, and the question as to whether some sales of silver would be expedient depends in the main on the financial results to be anticipated. These, it will be seen from the calculations in Appendix III, turn largely on the difference between the selling and buying price of silver. It is, in a sense, a speculation in silver. On the whole, it may be doubted whether there is sufficient advantage, assuming that the rupee remains unlimited legal tender, in reducing the Government's holding by sales, and whether it will not be preferable to allow the present surplus to be reduced automatically by natural absorption.

As regards gold, it is evident that so long as sterling and gold are synonymous, a gold exchange standard could be worked with a greater or lesser amount of gold, or even with no gold at all as suggested in Sir Basil Blackett's scheme for a sterling exchange standard. If India is to continue to hold some gold despite the cost, it must presumably be on the understanding that the gold is for use either for export in support of exchange or for issue as currency in the event of any unexpected crisis. By holding a certain amount of gold India *pro tanto* protects herself against a possible depreciation of sterling, and incidentally the holding of some gold would enable India in an emergency to give some support to sterling, in the stability of which she would have a tremendous interest by reason of her large investments in sterling and the important part that sterling plays in the trade of the country. Further, apart from any question of sentiment, to which due importance must be attached, the holding of gold by Banks of Issue is sanctioned by established practice, and has long been customary in the case of India. If, for these or other reasons, it is considered desirable that India should continue to hold gold in the Paper Currency Reserve, different opinions may legitimately exist regarding the amount that should be so held. It is, however, suggested that the amount should be carefully regulated and that, except for the purpose of maintaining the statutory metallic ratio, India should not in present circumstances aim at holding more than Rs. 30 crores of gold, and that interest-bearing sterling securities should be regarded as the main backing of an expanded issue. If gold is to be available for issue as local currency it will be convenient that there should be minting facilities in India. The Babington-Smith Committee preferred the sovereign to a specific Indian coin, but a new factor would be introduced if exchange were stabilised at 1*s*. 6*d*., as at this figure the sovereign would not be equivalent to an integral number of rupees. On the whole practical considerations seem to indicate a specific Indian gold coin.

In the light of the above observations a possible scheme for the reserve might then be established on the following lines :—

(1) The minimum metallic percentage to be ordinarily 40 per cent. of the gross circulation, and the fiduciary issue to be ordinarily limited to 60 per cent., the Bank to have the power to increase the invested proportion of the reserve to 70 per cent. on payment of a tax which would vary with reference to the degree of excess, e.g. 6 per cent. if the metallic ratio is less than 40 per cent. but more than 35 per cent., 7 per cent. if the metallic ratio is less than 35 per cent. but more than 32½ per cent., 8 per cent. if less than 32½ per cent. but more than 30 per cent.

(2) Of the metallic holding Rs. 50 crores to be fixed as the normal maximum of silver rupees. It would be necessary to allow the silver holding to exceed this figure until the present surplus had been absorbed. I agree with Sir B. Blackett that there is no need to prescribe a minimum for the silver holding, but it seems a question whether it would not be desirable to give the Bank a small share in the profits of the note issue in order that they might have some interest in avoiding an excessive holding of metal—possibly by allowing a small percentage of the yield on the sterling investments beyond the initial figure.

The metallic reserves would normally be located in India subject to a reasonable margin of time for shipments.

(3) Of the securities in the reserve the rupee securities not to exceed one-third of the gross circulation, the Government of India securities to be limited to Rs. 43 crores.

The object of this provision is to offer scope for the inclusion of an increasing quantity of suitable internal bills of exchange of short maturity if the rediscount market develops.

The remainder of the securities to be short-term British or Colonial Government securities expressed in sterling.

Assuming that the gold holding is rounded up to Rs. 30 crores and that silver absorption proceeds, the reserve might eventually be expected to assume the following complexion, which allows for the replacement of silver by sterling securities :—

(Figures in crores of rupees.)

Gold circulation.	Gold.	Silver.	G. of I. securities.	Sterling securities.	Gold Standard Reserve.
189·5	30	50	43	66·5	53
	Percentage of gross circulation.				
	15·8	26·4	22·7	35·1	

This hypothetical change in the composition of the reserve would lead to an increase of about Rs 40 crores in the earning assets, representing an annual interest gain of about Rs. 1¼ crores.

5. The question of the restrictions to be placed on the exchange operations of the Imperial Bank of India is discussed in Mr. Denning's Memorandum on the assumption that, subject to proper safeguards, it is appropriate to entrust what is primarily a commercial bank with the wide public responsibilities involved in the transfer of the note issue without making any material change in the character of the business it may undertake. It is obvious that the control of the note issue involves the grant of permission to the authority controlling it to transfer funds freely between India and London, and there seems no reason in that case for restricting the operations to one centre. From this point of view the words "in India" in (*a*) of the conditions set out in para. 17 of Mr. Denning's Memorandum seem unnecessary.

6. The question as to the method by which the Government should continue to obtain the profits of the note issue, in the event of transfer to the Imperial Bank, is a matter of detail which is capable of solution along different lines. There will be practical difficulties in fixing a fair percentage to be paid by the Bank for a period of five years on the invested portion of the reserve above the fixed minimum which would be free in order to cover the cost of administration. Owing to the variable character of rates of discount, any figure adopted for five years would almost certainly be to the detriment of one party or the other, and involve claims and counterclaims. The suggestion is offered that if the matter is dealt with on these lines the percentage rate for each year might be based on the actual rate of the previous year, and on the amount of securities held during that year. This leaves over for settlement the question of the first year, which could easily be adjusted *ex post facto* in the light of experience.

7. Reference may here be made to certain banking duties performed for the Secretary of State by the Bank of England.

Under clause 23 (2) of the Government of India Act, such parts of the revenues of India as are remitted to the United Kingdom, and all money accruing in the United Kingdom for the purpose of the Government of India, has to be paid into an account at the Bank of England.

Under various East India Loans Acts it is provided that the registers of the loans should be kept either at the office of the Secretary of State or at the Bank of England. These registers are now kept at the Bank of England.

The custody of securities held by the Secretary of State is in the hands of the Bank of England. The Secretary of State has entered into agreements with the Bank of England—(*a*) in respect of his balance and the printing of currency notes, the agreement not expiring until 1929; and (*b*) in respect of the management of the India sterling debt, the agreement not expiring until 1930. The printing of notes will be transferred to India on the expiry of the agreement. The relations between the Secretary of State and the Bank of England are intimate and cordial, and the Bank is in a position to render, and has continuously rendered, inestimable services to Indian finance—services which only a bank of the standing and authority of the Bank of England could render.

Appendix I.

The Imperial Bank of India.

Date.	Liabilities. Paid-up capital and reserve.	Liabilities. Public deposits.	Liabilities. Other deposits.	Liabilities. Loans against Hundis.	Liabilities. Miscellaneous.	Liabilities. Total.	Assets. Securities and loans.	Assets. Cash credits.	Assets. Bills discounted and purchased.	Assets. Miscellaneous.	Assets. Cash.	Assets. Total.	Percentage of cash to liabilities.	Percentage of public (Government) deposits to cash.	Percentage of public deposits to other deposits.
	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.	Per cent.	Per cent.	Per cent.
1921.															
28th January	7,20·00	7,96·50	76,43·40	—	26·80	91,86·70	35,22·24	19,45·66	7,54·95	2,59·00	27,04·85	91,86·70	31·94	29·5	10·4
1st April	8,33·61	5,36·77	74,03·48	—	51·26	88,25·12	29,65·98	22,09·64	9,77·30	2,57·76	24,14·44	88,25·12	30·21	22·2	7·3
1st July	9,18·85	20,15·48	70,83·95	—	1,82·32	1,02,00·60	29,61·35	22,03·14	12,87·52	2,79·05	34,69·54	1,02,00·60	37·38	58·0	28·1
30th September	9,42·08	8,49·51	83,75·19	—	1,44·73	1,03,11·51	39,56·84	23,17·59	8,03·33	2,63·04	29,70·71	1,03,11·51	31·70	28·6	10·1
30th December	9,54·03	6,79·99	64,90·62	—	2,29·36	83,54·00	31,12·18	25,25·83	10,30·39	3,29·76	13,55·84	83,54·00	18·32	50·1	10·5
1922.															
31st March	9,64·07	20,07·79	57,08·44	2,00·00	1,21·90	90,02·20	28,43·23	29,13·51	9,02·42	2,95·44	20,47·60	90,02·20	25·47	98·0	35·2
30th June	9,64·18	16,69·94	62,96·84	—	2,21·41	91,52·37	23,21·00	26,23·93	4,69·26	3,45·73	33,91·85	91,52·37	41·42	49·3	26·5
29th September	9,74·24	13,36·10	73,18·93	—	2,27·42	98,56·69	27,97·54	26,71·92	4,22·10	2,92·35	36,72·78	98,56·69	41·34	36·4	18·3
29th December	9,74·39	14,01·93	55,89·42	—	2,34·66	82,00·40	28,92·95	28,77·45	5,50·22	3,31·93	15,47·85	82,00·40	21·42	90·5	25·1
1923.															
30th March	9,85·00	20,53·17	53,61·86	—	1,92·23	85,92·26	28,28·22	31,30·33	8,86·03	3,03·47	14,44·21	85,92·26	18·98	142·2	38·3
29th June	9,85·00	12,37·77	68,28·08	—	1,91·67	92,42·52	24,85·98	29,64·02	5,41·27	4,10·89	28,40·36	92,42·52	34·39	43·6	18·1
28th September	9,97·50	15,69·05	78,89·28	—	1,08·41	1,05,64·24	27,85·10	30,55·23	4,70·62	3,13·61	39,39·68	1,05,64·24	41·18	39·8	19·9
28th December	9,97·50	8,13·80	72,35·51	8,00·00	1,89·47	1,00,36·28	33,08·84	35,86·01	10,33·25	4,03·69	17,04·49	1,00,36·28	18·85	47·7	11·2
1924.															
28th March	10,07·50	26,02·45	71,20·50	12,00·00	1,10·28	1,20,40·73	39,02·12	43,07·24	15,39·48	4,71·60	18,02·29	1,20,40·73	16·49	143·0	36·5
27th June	10,07·50	21,43·12	74,13·57	—	2,31·95	1,07,96·14	33,04·92	41,93·61	6,00·62	5,42·86	21,54·13	1,07,96·14	22·00	99·6	28·9
26th September	10,20·00	24,23·21	73,58·44	—	1,07·57	1,09,09·22	32,91·32	37,66·85	5,78·06	4,43·13	28,29·86	1,09,09·22	28·61	85·6	32·9
26th December	10,20·00	9,77·95	72,29·16	2,00·00	2,01·51	96,28·62	32,09·46	31,55·73	10,45·90	4,35·73	17,81·80	96,28·62	20·69	54·9	13·5
1925.															
30th January	10,30·00	17,69·75	69,72·59	4,00·00	69·28	1,02,41·62	32,79·48	32,09·34	15,71·19	3,49·17	18,32·44	1,02,41·62	19·89	96·6	25·4
27th February	10,30·00	23,31·04	68,27·41	8,00·00	90·07	1,10,78·52	34,92·80	35,80·22	19,18·29	3,49·22	17,37·99	1,10,78·52	17·29	134·0	34·1
27th March	10,30·00	26,14·46	69,51·70	8,00·00	1,17·39	1,15,13·55	38,00·45	34,99·22	18,67·33	4,12·86	19,33·69	1,15,13·55	18·44	135·0	37·6
1st May	10,30·00	26,30·44	68,69·96	6,00·00	1,73·51	1,13,03·91	40,16·81	37,59·11	12,47·05	3,69·40	19,11·54	1,13,03·91	18·60	137·5	38·3
25th May	10,30·00	28,96·31	68,74·41	—	1,98·31	1,09,99·03	38,08·67	36,35·98	9,92·78	2,97·31	21,64·29	1,09,99·03	21·71	133·8	42·1
26th June	10,30·00	22,45·76	73,77·94	—	2,16·30	1,08,70·00	33,46·92	30,51·66	6,50·31	4,22·93	33,98·18	1,08,70·00	34·53	66·1	30·5
31st July	10,40·00	24,80·61	75,75·72	—	78·82	1,11,75·15	29,06·80	27,49·27	4,87·22	3,46·08	46,85·78	1,11,75·15	46·23	53·0	32·8
28th August	10,40·00	20,91·66	75,33·09	—	87·18	1,07,51·93	28,90·57	27,86·92	4,48·63	3,53·01	42,72·80	1,07,51·93	43·99	49·0	27·8
2nd October	10,40·00	8,38·29	79,02·13	—	1,07·89	98,88·31	29,95·74	29,14·33	4,18·38	3,69·47	31,90·39	98,88·31	26·05	26·3	10·6
30th October	10,40·00	8,10·94	74,47·66	—	1,36·11	94,34·71	30,54·91	29,54·90	5,64·60	3,63·80	24,96·50	94,34·71	29·73	32·5	10·9
27th November	10,40·00	8,11·11	74,18·02	—	1,55·23	94,24·36	31,14·96	31,96·49	5,62·29	3,90·71	21,59·91	94,24·36	25·76	37·5	10·9
25th December	10,40·00	5,37·76	73,45·54	—	1,97·85	91,21·15	31,41·44	34,34·41	4,56·93	4,06·41	16,81·96	91,21·15	20·81	32·0	7·3

APPENDIX II.

Bank of England.

Date.	Public deposits.	Other deposits.	Cash (notes and coin).	Percentage of cash to liabilities.	Percentage of public deposits to cash.	Percentage of public deposits to other deposits.
1920.	£ (millions)	£ (millions)	£ (millions)	Per cent.	Per cent.	Per cent.
15th December -	19·4	126·1	14·0	9·6	138·3	15·4
1921.						
16th March - -	18·9	107·2	18·6	14·8	101·3	17·6
15th June - -	15·9	131·1	19·3	13·1	82·2	12·1
14th September -	15·1	129·5	21·6	14·9	69·5	11·6
14th December -	13·8	140·9	22·1	14·3	62·6	9·1
1922.						
15th March - -	18·9	115·6	25·5	18·9	74·3	16·4
14th June - -	17·7	110·1	25·4	19·8	69·9	16·1
13th September -	10·4	113·4	23·8	19·2	43·7	9·2
13th December -	10·1	114·8	22·7	18·2	44·5	8·8
1923.						
14th March - -	15·6	109·5	24·3	19·3	64·4	14·3
13th June - -	11·0	108·8	23·2	19·3	47·4	10·1
12th September -	15·7	106·5	23·3	19·0	67·6	14·8
12th December -	11·6	116·9	21·5	16·7	53·9	9·9
1924.						
12th March - -	19·3	105·6	22·8	18·2	84·5	18·3
11th June - -	10·7	122·3	21·8	16·4	49·2	8·8
17th September -	10·4	111·7	24·0	19·7	41·3	9·3
17th December -	10·6	108·8	22·8	19·0	46·4	9·7
1925.						
14th January -	11·7	117·9	22·2	17·1	52·6	9·9
11th February -	9·6	115·1	23·5	18·8	40·8	8·3
11th March - -	13·7	110·5	24·2	19·4	56·7	12·4
15th April - -	14·8	110·3	27·1	21·6	54·5	13·4
13th May - -	17·4	102·2	25·8	21·5	67·6	17·1
17th June - -	13·4	109·6	31·4	25·5	42·6	12·2
15th July - -	12·6	115·2	38·2	29·9	33·0	10·9
12th August -	15·7	110·7	38·8	30·6	40·6	14·2
16th September -	17·4	111·0	37·3	29·0	46·7	15·7
14th October -	8·5	103·4	32·5	29·0	26·0	8·2
18th November -	15·1	106·6	26·2	21·5	57·6	14·2
16th December -	10·7	118·3	20·4	15·9	52·5	9·0

APPENDIX III.*

(*a*) Hypothetical result of selling Rs. 15 crores silver until repurchase of same amount is necessitated in order to keep silver reserve up to Rs. 50 crores, normal absorption being taken at Rs. 7 crores per annum. It will be seen that in the sixth year there is a loss of £927,000, against which interest receipts amount to £631,000. The sale price of silver is taken at 30*d*. per standard ounce and purchase price at 34*d*. per standard ounce.

Period.	Stock at beginning of year.	Absorption.	Sales at 30*d*. per standard ounce. Amount	Proceeds.	Purchases at 34*d*. per standard ounce. Amount	Cost.	Stock at end of year.	Net proceeds (sales—purchases).	Year's interest on net proceeds at 3 per cent.
	Rs. crores.	Rs crores.	Rs. crores.	£ millions	Rs. crores.	£ millions	Rs. crores.	£ millions.	£ millions.
1st year	90	7	5	2·323	—	—	78	2·323	·070
2nd year	78	7	5	2·323	—	—	66	4·646	·139
3rd year	66	7	5	2·323	—	—	54	6·969	·209
4th year	54	7	—	—	3	1·579	50	5·390	·162
5th year	50	7	—	—	7	3·685	50	1·705	·051
6th year	50	7	—	—	5	2·632	48	— ·*927*	—
									·631

(*b*) By taking the sale price of silver at 28*d*. and purchase price at 34*d*., a loss in the sixth year is shown of £1·395 millions against interest receipts of £575,000.

			Sales at 28*d*.						
1st year	90	7	5	2·167	—	—	78	2·167	·065
2nd year	78	7	5	2 167	—	—	66	4·334	·130
3rd year	66	7	5	2·167	—	—	54	6·501	·195
4th year	54	7	—	—	3	1·579	50	4·922	·148
5th year	50	7	—	—	7	3·685	50	1·237	·037
6th year	50	7	—	—	5	2·632	48	—*1·395*	—
									·575

One rupee contains $\frac{55}{148}$ standard ounces of silver:—

(i) Value at 28*d*. per standard ounce = £0·04335.
(ii) „ 30*d*. „ „ = £0·04645.
(iii) „ 34*d*. „ „ = £0·05264.

If it is assumed that Rs. 15 crores of silver were sold in the course of a few years at an average price of about 29*d*. per standard ounce, the amount realised would be approximately Rs. 9 crores, leaving a deficiency of about Rs. 6 crores which might be made good by increasing the Government of India's securities in the reserves to Rs. 46 crores and by drawing on the Gold Standard Reserve for Rs. 3 crores.

The result of such an operation on the reserves is shown in the following figures:—

(*Figures in crores of rupees.*)

Gross circulation.	Gold.	Silver.	G. of I. securities.	Sterling securities.	Gold Standard Reserve.
189·5	30	75·1	46	38·4	50
	(*Percentage of gross circulation.*)				
	15·8	39·6	24·3	20·3	

While, however, silver bullion was being sold, the absorption of silver currency may be presumed to be continuing independently, and for purpose of illustration it may be postulated that its place has been taken by sterling securities. In this case the reserve would present the following aspect:—

(*Figures in crores of rupees.*)

Gross circulation.	Gold.	Silver.	G. of I. securities.	Sterling securities.	Gold Standa Reserve.
189·5	30	50	46	63·5	50
	(*Percentage of gross circulation.*)				
	15·8	26·4	24·3	33·5	

The real assets are Rs. 6 crores lower than in the final table of para. 4, as there is no question in this case of a loss on the disposal of silver.

* *See also* Appendix 75 (B).

APPENDIX 73.

Memorandum No. 5, on "Remittances," submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

The method of effecting the remittance from India of funds required for the purpose of meeting the needs of the Home Treasury raises a number of points which merit attention. The Appendix to this Note sets forth the position as it has developed in recent years.

2. The system of buying sterling in India, introduced in 1923 to supplement the sales of Council drafts, which had necessarily to be sold under different conditions from those prevailing before the war (*vide* Appendix), was adopted with reference to special conditions when the rupee was linked neither to gold nor sterling at a fixed rate and was a currency with a widely fluctuating international value. On the re-establishment of an effective gold parity the range of fluctuation will be limited between upper and lower gold points, and so far as the question of an undesirable up-rush of exchange is concerned (which was the origin of the introduction of purchases of sterling in India) it will be an essential element in the exchange system that tenderers of gold should be in a position to obtain rupees without limit at the new parity, and/or that rupees should be available against payment in sterling at a price corresponding with the upper gold point.

3. It is suggested that a satisfactory scheme for Government remittances must satisfy the following tests:—

(*a*) It should be so framed as to give Government the prospect of obtaining the best price for the rupees sold, consonant with market conditions.

(*b*) It should comply with the legitimate interests of those engaged in financing Indian trade.

(*c*) It should be so framed as to prevent as far as possible the financial transactions of Government from becoming a subject of controversy.

4. In considering the systems of Council sales and purchases of sterling as hitherto effected, it is important to determine the following two issues:—

(1) Are public interests better served by a system of open competitive tender or by operations of which the intended extent is not announced in advance?

(2) Are public interests best served by operations in London or in India, or in both?

5. In so far as Government has to remit funds for its own purposes, it is in the position of any private remitter, and if this were a complete description of their position there would seem to be no reason why Government should regard itself as being under any restrictions in regard to its remittances, either as to place or manner which do not apply to the ordinary trader.

6. The object of a system of public tender is to safeguard the interests of Government by securing the freest competition for the rupees on offer, and there does not seem to be any convincing reason for thinking that private discretionary operations, of which the intended extent is not announced in advance, would, over a prolonged period, produce any better result as regards the rate at which rupees are sold. It is reasonable to suppose that the sale of rupees on the scale necessitated by the needs of the Home Treasury must, in the long run, have a similar effect on the market whether these sales are conducted publicly or privately, and in so far as publicity tends to reduce the speculative element, sales by public auction should make for stability in the exchange.

7. In considering this question of public and private operations, the observations in para. 5 have a special relevance. The position of Government is not that of an ordinary remitter owing to the fact that the volume of its transactions give it a preponderating part in the determination of exchange tendencies at any particular moment. The proportion between the volume of the Government of India's exchange operations and the aggregate of transactions in the rupee-sterling exchange is probably a unique feature in the relation of any important Government to the exchange market in its currency. These considerations give those engaged in Indian trade a claim to know the action that Government is taking in regard to exchange operations much in the same way as the business community in the United Kingdom are given immediate information regarding movements of gold to and from the Bank of England.

Though on the whole the system of purchases of sterling appears to have worked smoothly so far as trade interests are concerned, there have not been lacking signs that the absence of publicity is regarded as a defect.* In this connection reference may be made

* Cf. remarks by Mr. V. A. Graham at meeting of Associated Chambers of Commerce, Calcutta, reported in *Statesman* of 16th December 1925.

to the following report of some remarks made by the Chairman of the Eastern Bank at the annual general meeting of the Bank on 20th March 1925:—

> "Referring to the question of exchange, it is necessary to mention a new factor which had presented itself in connection with the recent operations of the Indian Government. Formerly, Council drafts were sold on this side, and the amount to be offered was strictly limited. Of late, however, as a result of pressure in India, the Government had purchased sterling on the other side as well. There would be no serious objection to that provided the Government publicly announced beforehand the amount to be purchased during a fixed period. No such announcement, however, was made; the Government came into the market from time to time, sometimes even from day to day, and then suddenly withdrew entirely, thus causing the greatest uncertainty as to their future course of action. He had the greatest respect for Sir Basil Blackett, who so ably administered and controlled the public finances of India, and he was quite satisfied that the practice initiated by him, with the full support of many distinguished Indians, was designed, in the view of Sir Basil, to achieve the best ultimate result for India. He would point out, however, that when exchange operations attained a magnitude so greatly in excess of the actual requirements of the Government, so far as one was able to judge, there was an element of danger to commercial transactions exposed in such circumstances to factors outside the knowledge of the exchange banks, who could gauge the requirements of trade and commerce, but were quite unable to foreshadow the action of the Government in the exchange market. He hoped that the Government would consider the advisability of adopting for their purchases in India a procedure similar to that followed in connection with the sale of Council bills on this side."

Again, the financial correspondent of the *Times of India* makes the following remarks in the issue of 23rd May 1925:—

> "The opinion prevails in banking circles that Government should announce every morning the purchases of sterling made the previous day and that movement of public funds should not be kept private. It is contended that the sales of Council bills are made immediately public, and that the same procedure should be followed in the case of purchases of sterling, the rate and amount of purchase being made public the day following the purchase."

8. Sales of rupees by open competitive tender place all parties in the same position and are a safeguard to Government against any possible question in regard to their extensive and predominating exchange operations. On the other hand, to operate in a more or less private manner may, on occasion, invite comment and endanger the full confidence that is a vital asset to Government in its financial transactions.

9. Experience has shown that sterling remittances can be effected at satisfactory rates on an extensive scale either in India or in London. If the view is held that it is desirable that remittance operations should be conducted by open tender, with the publicity characteristic of the sales of Council drafts, the question of the seat of operations has to be considered. Two points may be noted: (1) Sales in India* involve the correlation of demands from various centres remote from each other and the headquarters of Government. This cannot be as simple or expeditious as the receipt and disposal in London of tenders from the head offices of the Exchange Banks and other leading institutions and firms generally situated in close proximity to the Bank of England. Further, in the case of Council sales in London, rupees are not issued until the Secretary of State in Council has been paid in sterling. In the case of purchases of sterling in India, the rupees are credited before the sterling has been paid over to Government. It is therefore necessary to discriminate in such purchases, and the area of competition is thus not so wide as in London, where drafts are open to tender by all without distinction.

10. Reference may here be made to the measures required when exchange weakens to the lower gold point—a matter on which some further observations are offered in para. 4 of the note on the future control of the Paper Currency. The Royal Commission of 1913-4 advised that the Government of India should make a public notification of their intention to sell bills in India on London at a price corresponding to the lower gold point, whenever they were asked to do so, to the full extent of their resources. This view was endorsed by the Babington-Smith Committee, who also approved the practice of offering telegraphic remittances, as was first done in connection with certain sales at the outbreak of the war. The Committee recommended (para. 62 of Report) that the Government of India should be authorised to announce, without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reverse Councils (including telegraphic transfers) during periods of exchange weakness, the rate being based on the cost of shipping

* It is worth mentioning that sales of sterling by the Exchange Banks in India, as hitherto conducted, are understood normally, or at any rate on occasions, to involve the payment of a commission by the seller to a broker. This does not arise in the case of sales of rupees through the medium of Council drafts.

gold from India to London. In the announcement issued by the Government of India on 2nd February 1920 (see page 11 of Memorandum 1), effect was given to this proposal in the following terms:—"In accordance with the Committee's recommendations, the Government of India will, when occasion requires, offer for sale stated weekly amounts of sterling reverse drafts on the Secretary of State for India (including immediate telegraph transfers)." It is desirable that the present Royal Commission should consider whether the decision embodied in the above quotation sufficiently ensures that the exchange value of the rupee will be maintained at the appropriate level. The proper working of the gold exchange standard, as developed in India, implies that rupees will be obtainable at a price corresponding to the upper gold point without limit. A complementary condition for the perfect working of the system implies that remitters should be able to obtain gold or sterling exchange at a price corresponding with lower gold point, also without limit. Hitherto Government have not taken upon themselves this last responsibility, and so long as the offers of sterling (or gold) at any time are limited the restriction on the amount may result in the market rate of exchange falling below the correct parity. An opportunity for reconsidering this question is presented by the improved prospects of economic stability in conjunction with the present strength of the gold and sterling reserves, of which the amount on 31st December 1925 was as follows:—

	£
(a) Sterling securities in the Paper Currency Reserve (nominal value) -	29,285,000
(b) Sterling securities (market value) and cash in the Gold Standard Reserve -	40,000,000
(c) Gold in Paper Currency Reserve in India - - - - - -	22,318,000
Total - - -	£91,603,000

The amount under (a) consists entirely of British Treasury Bills. Present-day policy aims at maintaining the Gold Standard Reserve in a high stage of liquidity, and of the amount under (b) £9,045,000 represents British Government securities with maturity not exceeding in any case three months, whereas the balance of the reserve is in the form of securities with ready marketability. It would mark a definite advance on the pre-war position if the Commission see their way to advising that the time has come for Government to announce its readiness to sell reverse drafts without limit at the price corresponding to gold export point. In such a case the arguments for holding the reserve in a highly liquid form would derive increased cogency.

APPENDIX.

Recent developments in the system of Government Remittances.

Before the war the main method by which the Secretary of State was placed in funds was by sale by open tender of Council drafts* (that is, drafts on India) at the Bank of England. Subject to modifications necessitated by war conditions, as described in the Babington-Smith Committee's Report, the same system was maintained during the war. Remittances were occasionally effected by the shipment of gold from India, but the amount of such shipments was small, and one of the objects that the Secretary of State kept before him in regulating his drawings was to avoid the necessity and expense of gold shipments.

The history of the sale of Council drafts will be found in Appendix VII to the Report of the Royal Commission of 1913–14, and a copy of the regulations of 1915 (containing the pre-war conditions) and of 1924 (the latest form) are reprinted as Annexure A to this note.

The rules now in force differ in two important respects from those in force before the War. First, they do not provide for the sale of intermediate drafts which were habitually sold, if required by trade, between the regular weekly auctions. Intermediate drafts were suspended in December 1916, and no question of their revival could arise until the resumption of the sale of Council drafts in January 1923. (Since the resumption the place of intermediates has been taken by purchases of sterling in India as explained below). Secondly, there is no provision for the sale of rupees without limit at a price corresponding to upper gold point, owing to the abnormal exchange conditions under which sales have been recently conducted.

During the period of stable exchange, the system under which Council drafts were sold in London satisfactorily met the needs of Government and trade, and it is noteworthy that the fundamental principles on which the system was conducted were not called into question either by the Royal Commission of 1914 or by the Babington-Smith Committee of 1919. (*See* para. 61 of Report.)

* In this note, unless the context otherwise requires, the term "draft" should be understood as including telegraphic transfers.

2. In considering the question of the methods by which the funds required by the Secretary of State for the discharge of his liabilities should be drawn from India, it is necessary to distinguish between the abnormal conditions of the last few years and the situation as it may be expected to be when the rupee again has an effective stabilised international value.

Between the date of the publication of the Babington-Smith Committee's Report and January 1923, there were no sales of Council drafts in London, as explained in para. 10 of Memorandum No. 1. When the Secretary of State decided in January 1923 to reopen sales, market conditions were uncertain, and the question of regulating remittances so as to admit of substantial drawings from India, and at the same time avoid unsettling trade, gave rise to much consideration. It was then decided, at the instance of the Government of India, to supplement the weekly sales of Council drafts by purchases of sterling in India, rupees being sold by the Government of India, through the Imperial Bank, to the Exchange banks against telegraphic transfers of sterling to be placed to the credit of the Secretary of State in London at the Bank of England, *viâ* the London office of the Imperial Bank. The extent of the proposed remittances by sterling purchases in India, or the rates at which Government was prepared to effect them, were not announced in advance, nor were tenders invited. Government's operations were discretional, the guiding principle being to secure remittance on a substantial scale, and at the same time to avoid, as far as possible, excessive fluctuations in the rate of exchange.*

3. The following table exhibits the amount of remittances in the years 1922–23, 1923–24, 1924–25, and for the first nine months of 1925–26, distinguishing between amounts drawn by Council sales and by purchases of sterling:—

TABLE.

REMITTANCES BY THE GOVERNMENT OF INDIA TO THE SECRETARY OF STATE FOR INDIA SINCE 1922–23.

Year.	Sales of bills and telegraphic transfers on India by Secretary of State.	Purchases of sterling in India by the Government of India.	Purchases by the Secretary of State of proceeds of loans raised in London by Indian public bodies.	Total remittances.
	£	£	£	£
1922–23 -	2,570,026	70,000	2,126,210	4,766,236
1923–24 - -	8,738,705	13,100,000	1,302,959	23,141,664
1924–25 - -	7,579,162	33,191,000	700,000	41,470,162
1925–26 (9 months) -	Nil	37,566,500	Nil	37,566,500

From January 1923 to December 1925, the total remittances effected by purchases of sterling amounted to £83,927,500 while the corresponding figure in respect of remittances by Council drafts (including sterling taken over from Indian public bodies borrowing in London) was £23,017,100. In this connection two points may be noted: first, when exchange movements have been wide and market prospects uncertain, it was considered inconvenient to maintain offers of Councils unless conditions definitely pointed to an active demand for rupees at rates that commended themselves to Government. Council drafts were sold during 6 weeks from January to March 1923, 31 weeks in 1923–24, and 17 weeks in 1924–25. Secondly, it was decided in October 1925 that, for the time being, remittances should not be effected below the rate of 1*s.* 6$\frac{3}{16}$*d.* (a figure corresponding closely to upper gold point on the basis of a 1*s.* 6*d.* gold rupee), and to meet all demands for remittance that might be forthcoming at this figure without making any binding announcement on the matter. Under these conditions the normal competitive element inherent in the tender system would be lacking and there would have been no point in instituting any formal offer of Council drafts. Under pre-war conditions the then standing offer of unlimited Councils at upper gold point would have operated (vide para. 11 of Annexure (i)). In these circumstances on the 21st October the Secretary of State addressed the following telegram to the Government of India:—

"A decision having been arrived at as to the rate at which Government remittances should be effected for the present, I have had under consideration

* Copies of despatches exchanged between the Secretary of State and the Government of India in 1923 will be produced if the Commission so desire.

the question whether, in accordance with practice in recent years in the busy season, it would now be expedient to reopen sales of Councils.

"The decision, however, not to remit below the definite figure of 1*s*. $6\frac{3}{16}$*d*. for the time being, and, without making any public commitment to this effect, to meet all demands for rupees at this figure, makes the position exceptional, and, as during the continuance of this situation the invitation for competitive tenders for Councils would lack reality, I have decided not to take any action at present. Should it appear expedient at any time, the question will be reconsidered. The general question of the most suitable methods under normal conditions of making remittances is, you will understand, left untouched by this decision. This is a matter on which the Royal Commission on Currency will no doubt report. This refers to my telegram of the 14th October."

ANNEXURE.

Sale of Bills and Telegraphic Transfers on India.

(i) 1915 Regulations containing the pre-war conditions.

In supersession of previous notifications, the Secretary of State for India in Council publishes the following particulars as to the method of selling Bills and Telegraphic Transfers on India:—

Sale of Bills.

1. The Secretary of State for India in Council is prepared to allot on Wednesday in each week Bills of Exchange on the Government of India, the Government of Madras, or the Government of Bombay of an aggregate amount not exceeding that announced in a notice which will be previously exhibited at the Bank of England.

2. Tenders for such Bills will be opened at the Bank of England on each Wednesday at 1 o'clock.

3. Tenders must be made on forms which can be obtained on application at the Chief Cashier's Office at the Bank of England. They must be delivered, under cover, at the said office.

4. Any tender may be for the whole amount shown in the announcement or for any portion thereof not being less than Rs. 10,000. The amount of the tender or tenders submitted by or on behalf of any one person, firm, or company must not in the aggregate exceed the amount shown in the announcement. Tenders which appear to the Secretary of State in Council to be submitted in direct or indirect infringement of this rule will be rejected.

5. Each tender must state the rate of exchange at which the applicant is prepared to purchase a Bill or Bills of the amount for which he tenders or any less amount that may be allotted to him. The rate of exchange must be expressed in pence, or in pence and a fraction of a penny, per rupee; any fraction that is used must be either one thirty-second of a penny or a multiple of one thirty-second of a penny.

6. In the event of two or more tenders being made at the same rate, and the amount to be allotted being less than the amount of both or all, a *pro rata* allotment will ordinarily be made, subject to the condition that no Bill will be granted for a less amount than Rs. 5,000.

7. As soon as practicable after the opening of the tenders the result will be made known at the Bank, and the *maximum* amount to be allotted on the following Wednesday will ordinarily be announced at the same time.

8. On Wednesday afternoon persons who have tendered will, on application at the Chief Cashier's Office, be informed whether any allotment has been made to them.

9. Payment for Bills allotted on a Wednesday must be made on or before the following Tuesday.

10. Those applicants to whom an allotment of Bills has been made will be furnished with a form to be filled up with the particulars of the Bills desired, which must be left at the Chief Cashier's Office before 12 o'clock on the day preceding that on which the Bills are required; the Bills will be delivered next day on payment in cash not later than 2 o'clock.

11. In addition to the tenders mentioned above for Bills to be allotted on Wednesdays at 1 o'clock, applications may be made on any Wednesday after the result of the allotment has been announced (but not later than 3 o'clock), on Saturday between 11 and 12.30 and on any other day between 11 and 3, at the Chief Cashier's Office of the Bank of England for intermediate Bills drawn on the Government of India, the Government of Madras, or the Government of Bombay. No pledge can be given that such applications will be complied with; but, if intermediate Bills are granted, the following condition will be observed, viz., that if, at the preceding allotment, Bills have been allotted to the full amount previously announced, intermediate Bills will only be granted at rates exceeding by at least one thirty-second of a penny per rupee the minimum price at which an allotment was made. If, however, the minimum price has exceeded 1*s.* $4\frac{3}{32}$*d.* the rupee this condition will not be enforced, as the Secretary of State in Council is prepared to sell until further notice intermediate Bills at 1*s.* $4\frac{1}{8}$*d.* the rupee.

12. If an intermediate Bill is granted on a Tuesday, payment must be made on the same day; if a Bill is granted on any day other than Tuesday, payment must be made not later than the following Tuesday.

Sale of Telegraphic Transfers "Immediate" and "Deferred."

13. Applications for Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay, will be received on behalf of the Secretary of State for India in Council at the Chief Cashier's Office at any time between 11 and 3, except on Saturdays, when the hours are from 11 to 12.30. Those which are received on Wednesday before 1 o'clock will be opened at the same time as the tenders for the weekly allotment of Bills; and, if transfers are then granted, the fact will be announced at the same time and in the same manner as the allotment of Bills. Transfers will be granted only in thousands of rupees, and in no case for less than one lakh; except that an applicant to whom a transfer has been granted at the time of the weekly allotment of Bills may be allowed an additional transfer of an amount (in thousands of rupees) less than one lakh, provided that such additional transfer is paid for (at the price fixed for the time being by the Secretary of State in Council) on the same day as the transfer originally granted. Applicants tendering on Wednesday before 1 o'clock both for Bills and transfers may, if they wish it, insert in their tender for transfers a request that, if that tender be not sufficiently large to secure an allotment of one lakh of rupees, it may be increased to the necessary extent by reduction of their tender for Bills.

14. If a transfer is granted on a Tuesday, payment must be made on the same day; if a transfer is granted on any day other than a Tuesday, payment must be made not later than the following Tuesday.

15. The necessary telegram to enable the amount of a transfer to be issued to the recipient in India will be despatched on the day on which payment for the transfer is made at the Bank of England. Immediate transfers will be payable in India on the day following the issue of the telegram; deferred transfers will be payable 16 days after the issue of the telegram.

General.

16. The sales of Bills and Telegraphic Transfers, and the rates at which they have been made, will be from time to time announced at the Bank of England, and the total amount sold up to date since the 1st of April, with the sterling realised, will be similarly announced on each Wednesday morning at 11 o'clock.

17. The Secretary of State in Council, while making this announcement as regards the practice to be ordinarily pursued, reserves to himself the right of rejecting the whole or any part of any tender and of departing in any respect without previous notice from the foregoing terms should circumstances render it expedient.

Special Notice.

Persons or firms applying for Bills or Telegraphic Transfers are hereby notified that by virtue of the provisions of Acts 22 Geo. III., cap. XLV., Section 10, and 41 Geo. III., cap. LII., every allotment of such Bills or Telegraphic Transfers is made subject to the express condition that no Member of the House of Commons be

admitted to any part or share therein, or to any benefit to arise therefrom. The Statute does not apply to contracts entered into by incorporated trading companies in their corporate capacity.

India Office,
22nd February 1915.

(ii) 1924 Regulations (the latest form).

The Secretary of State for India in Council offers for sale on Tuesday, 30th September 1924, Bills of Exchange and Telegraphic Transfers (Immediate and Deferred) on the Government of India, to the amount of fifty lakhs of rupees, payable at Calcutta, Madras, Bombay and Karachi. This and any subsequent sales will, until further notice, be regulated by the following conditions.

Conditions of Sale.

1. Dates of sales and the aggregate amount to be offered on each occasion will be announced in a notice exhibited at the Bank of England.

2. Tenders will be opened at the Bank of England on Tuesdays at 1 o'clock. They must be made on forms which can be obtained on application at the Chief Cashier's Office at the Bank of England.

3. Any tender may be for the whole of the amount shown in the announcement, or for any portion thereof which in the case of a Bill is not less than Rs. 10,000, and in the case of a Transfer (Immediate or Deferred) is a multiple of Rs. 1,000 and not less than Rs. 1 lakh. The amount of the tender or tenders submitted by or on behalf of any one person, firm, or company must not in the aggregate exceed the amount shown in the announcement. Tenders which appear to the Secretary of State in Council to be submitted in direct or indirect infringement of this rule will be rejected.

4. Each tender must state the rate of exchange at which the applicant is prepared to purchase the amount for which he tenders therein or any less amount that may be allotted. The rate of exchange must be expressed in pence, or in pence and a fraction of a penny, per rupee; any fraction must be either one thirty-second of a penny or a multiple thereof. No announcement will be made of the minimum rate at which tenders will be accepted.

5. Tenders for Immediate Telegraphic Transfers will rank for allotment with tenders at $\frac{1}{32}d.$ lower for Bills and Deferred Telegraphic Transfers. When a *pro rata* allotment is made, no Bill will ordinarily be granted for a less amount than Rs. 5,000, and no Telegraphic Transfer for a less amount than Rs. 1 lakh. Applicants tendering both for Bills and Transfers may, if they wish, insert in their tender for Transfers a request that if that tender be not sufficiently large to secure an allotment of one lakh of rupees it may be increased to the necessary extent by reduction of their tender for Bills.

6. On Tuesday afternoon tenderers will, on application at the Chief Cashier's Office, be informed whether any allotment has been made to them.

7. Payment for Bills and Transfers must be made before the Tuesday next after the day of allotment.

8. Applicants to whom an allotment of Bills has been made will be furnished with a form to be filled up with the particulars of the Bills desired, which must be left at the Chief Cashier's office before 12 o'clock on the day preceding that on which the Bills are required; the Bills will be delivered next day on payment in cash not later than 2 o'clock.

9. When a Telegraphic Transfer has been allotted the necessary telegram authorising payment in India on demand will be sent on the day on which payment for the Transfer is made at the Bank of England. Immediate Transfers will be payable in India on the day following the issue of the telegram; Deferred Transfers will be payable 16 days after the issue of the telegram.

10. Subject to further notice no "intermediate" Bills or Telegraphic Transfers will be offered for sale by the Secretary of State in Council.

11. The Secretary of State in Council reserves the right of rejecting the whole or any part of any tender, and of departing in any respect without previous notice from the foregoing terms should circumstances render it expedient.

SPECIAL NOTICE.

Persons or firms applying for Bills or Telegraphic Transfers are hereby notified that by virtue of the provisions of Acts 22 Geo. III., cap. XLV., section 10, and 41 Geo. III., cap. LII., every allotment of such Bills or Telegraphic Transfers is made subject to the express condition that no Member of the House of Commons be admitted to any part or share therein, or to any benefit to arise therefrom. The Statute does not apply to contracts entered into by incorporated trading companies in their corporate capacity.

INDIA OFFICE,
23rd September 1924.

APPENDIX 74.

Note submitted by Mr. C. H. Kisch, C.B., Financial Secretary to the India Office, entitled "Some considerations suggested by a review of the events of 1920 with reference to banking development in India."

The year 1920 was in many ways exceptional in the economic history of India as it was in the case of other countries. The year saw the attempt to establish the 2*s.* (gold) rupee, the revaluation of reserves on the new basis, and the eventual abandonment of the policy of active support to the exchange.

The events of the year may usefully be studied with regard to the lessons they can teach for future guidance. They bring out in a clear light certain difficulties, which, at any rate for a long time to come, may be expected to emerge if the Indian currency system is exposed to a severe test.

First, it is necessary to remove a source of complication, arising from the fact that the currency note reserve was revalued in October 1920 on a 2*s.* basis. It is convenient, for the purpose of unravelling the facts, to reconstruct the paper currency reserve on a 2*s.* basis in exhibiting the figures for 31st December 1919 for purpose of comparison with the position on 31st October 1920, when adjustments connected with the sales of Reverses were completed. If this is done the constitution of the reserve at the end of 1919 and at the end of October 1920 compares as follows:—

Paper Currency Reserve. (Rs. 15 = £1.)

(*Figures in lakhs of Rupees.*)

Date.	Gross note circulation.	Reserve.			
		Gold.	Silver.	Rupee Securities.	British Government Securities.
	Rs.	Rs.	Rs.	Rs.	Rs.
31st December 1919 - -	1,82,91	26,47	43,67	57,77*	55,00
31st October 1920 - -	1,59,58	23,75	59,41	68,07	8,35
Difference - - -	—23,33	—2,72	+15,74	+10,30	—46,65

* Balancing figure.

The actual currency contraction in the first ten months of 1920 as exhibited by the change in the reserve was:—

Notes - - -	Rs. 23·33 crores.
Silver - - -	Rs. 15·74† ,,
	Rs. 39·07 ,,

† The amount corresponds to the net return (Rs. 14·87 crores) of rupees and half rupees, in the first nine months of 1920, as shown in Statement VIII of the Controller of Currency's Report for 1920–1.

The decrease in the currency reserve gold holding of Rs. 2·72 crores is not regarded as expansion, inasmuch as the gold was not available for purposes of currency.

The amount received in India in payment for Reverses sold in the period (January to September) was Rs. 46·93 crores, and the net reduction in the gold holding represented a contracting power of Rs. 4·08 crores, on the approximate basis of the selling price of gold at the time. The extent to which these transactions desiderated currency contraction was thus Rs. 51·01 crores. This may be compared with the actual contraction effected of Rs. 39·07 crores as set out formally in the following table :—

(Figures in Rs. crores.)

Rupees received for sterling sold - - -	46·93	Contraction effected - - -			39·07
Net reduction of gold (at Rs. 15 per £) - -	4·08	Deficiency—			
		Issue of *ad hoc* Treasury bills -		10·30	
		Adjustment for gold at Rs. 15 -		1·36	
Contraction desiderated -	51·01	Difference between rupee receipts for Reverses -	46·93		
		and sterling withdrawn	46·65		
				·28	
					11·94
					51·01

The sum of Rs. 11·94 (say 12) crores represents in effect an appropriation to Treasury of funds which, having been received from the public in exchange for sterling or gold held in the reserve, should strictly have been appropriated to the reserve.

The figure may be regarded as roughly measuring the amount by which the due contraction was avoided in connection with the operations of 1920. Still, it has to be noted that actually Rs. 39 crores of currency contraction was effected.

The effect of this deflation on the banking position in India in 1920 may now be examined. The relevant figures of bank deposits and cash balances are shown in the tables that follow :—

Date.	Presidency Banks.			Exchange Banks.			Principal Indian Banks.		
	Deposits.	Cash balances.	Percentage.	Deposits.	Cash balances.	Percentage.	Deposits.	Cash balances.	Percentage.
31st Dec. 1919 -	75·9	23·6	31·1	74·4	30	40·3	59	12·2	20·7
31st Dec. 1920 -	87	26	29·9	74·8	25·2	33·7	71·1	16·3	22·9

All Banks.

Date.	Deposits.	Cash balances.	Percentage.
31st December 1919 - -	209·3	65·8	31·4
31st December 1920 - -	232·9	67·5	29·0

Here we may note :—

(1) that the aggregate deposits of the Presidency, Exchange, and principal Indian Joint Stock Banks increased by Rs. 23½ crores in the year 1920;

(2) that of these Rs. 23½ crores additional deposits, about half accrued to the Presidency Banks, and half to the Indian Joint Stock Banks, while the deposits of the Exchange Banks were practically unaltered;

(3) that there was a small decline in the cash percentage in the case of the banks as a whole and a larger decline in the case of the Exchange Banks, whose position was presumably influenced specially by the sale of reverse councils.

On the above statistics it seems impossible to resist the conclusion that such currency deflation as was achieved through the sale of Reverses was partially countered by the expansion of bank credit.

The discount policy of the Presidency Banks is illustrated in the following table:—

Discount Rates of the Presidency Banks in 1920.

Date.	Bank of Bengal.	Bank of Bombay.	Bank of Madras.
Rates at beginning of 1920.	5	5	6
January	6 (14th)	6 (22nd)	7 (31st)
February	7 (11th)	7 (4th)	8 (14th)
April	—	8 (8th)	—
	—	9 (22nd)	—
May	—	8 (13th)	9 (1st)
	—	7 (27th)	—
June	6 (10th)	6 (16th)	8 (19th)
July	5 (1st)	5 (31st)	7 (10th)
	—	—	6 (24th)
November	6 (4th)	6 (4th)	—
	7 (18th)	7 (12th)	7 (12th)

These rates might appear not to indicate any such exceptional efforts to control credit as might have been expected at a time when exchange was falling and currency contraction was being effected. But according to the report of the Controller of Currency on the year 1920–1, the 5 per cent. rate which ruled for a period in the summer "can hardly be considered a true index of the state of the market," and the average rate for accommodation in the bazaar, as calculated from the shroffs' discount rate for traders' bills, ranged in the year from 8 to 11 per cent. Moreover, the Controller of Currency observes that: "The continued demand for remittances in the early months of the year, and the large amount of reverse councils offered to the public, created a fictitious stringency in the market which is reflected in the bank rates." The average rate of the Bank of Bengal for the year was about ½ per cent. higher than the average for the two previous years, while the average increase was greater in the case of the Bank of Bombay.

Mr. Denning, in his note on the sale of reverse councils in 1920, observes that: "The currency was not contracted to the full extent of the amount realised by the sale of reverse councils, as it was feared that the money stringency which would have resulted might have seriously dislocated business generally." These remarks must of course be applied to the banking position, and it must be accepted that the view of the authorities at the time was that the advantages, from the point of view of exchange, of creating a greater stringency in the money market, were likely to be more than counterbalanced by the anticipated detriment to trade and business. The facts set forth above bring those who are faced with the task of devising and working the Indian currency system up against a fundamental difficulty, that is, the inability, in the case of Indian conditions, to secure credit contraction on the scale and with the promptness that may be required to keep the situation in control.

Undoubtedly there were factors at work in 1920 which made it difficult to enforce greater contraction of currency and tended to the expansion of bank deposits. It is worth noting:—

(1) that there was a heavy revenue deficit which for 1920–1 came out at Rs. 26 crores, and a large exchange loss outside the revenue account to be financed;

(2) that there was a large outstanding amount of Indian Treasury bills with the public, the renewal of which would have become increasingly onerous as stringency increased;

(3) that the acquisitions of gold for sale to the public, which was credited to the paper currency reserve against the issue of notes, tended, in the first instance, to maintain the cash balances of the Presidency Banks;

(4) that the sale of reverse drafts, in so far as this did not involve corresponding currency contraction (as explained above), tended in the same direction as (3); and

contra (5) that the sales of gold which in the year amounted to £33½ millions (sovereigns weight) tended to displace currency in the hands of the public and facilitated the contraction of the note issue.

While some of the above factors no doubt had an inflationary tendency, it is difficult to assert with any confidence that the situation would have been susceptible of more rigorous control had they been absent, because the limit of deflation was set by the anticipated reaction of an increased stringency on business. This factor is likely to be the dominant consideration in the future also, if a severe crisis of a similar type arises, and the facts will not be altered by any change in the agency charged with the task of applying the screw. Indeed, if this duty were entrusted to a bank whose main interests are commercial the effort to hold the fort may be less sustained than when undivided responsibility lay with the Government. The argument points to the desirability of creating, if possible, a genuine Central Bank, whose functions are closely circumscribed.

Certain suggestions emerge from this review of the events of 1920 which may be worth recording by reason of their bearing on future policy*:—

(1) If at any time Government remittances are suspended on account of exchange weakness, and cash balances at the bank remain high, tending towards expansion, the desirability of drawing on the cash balances for the contraction of the note issue should be kept prominently in mind.

(2) Reverse drafts should not ordinarily be met from Home Treasury balances, as the volume of currency in India is not thereby reduced. The sale of drafts should at once be brought to the debit of the sterling reserves, involving corresponding contraction in India.

(3) The extent of possible contraction at any given period of strain will be determined not so much by the strength of the sterling reserves as by the capacity of trade and business to endure the stress.

(4) A central bank in India, if charged with the duty of credit and currency control, will be working, owing to the undeveloped conditions of credit, under serious disadvantages as compared with central banks in countries with a highly developed credit organism. It is desirable to fortify the bank in every possible way and to protect it, so far as may be, from the risks involved in responsibilities, to the due discharge of which conditions in India are at present imperfectly suited.

(5) It is desirable that central banking in India should advance on cautious lines which take account of the special factors prevailing in India, and that the close association of Government with the central bank should be definitely recognised as an important element in the maintenance of a sound currency and exchange system.

APPENDIX 75.

Supplementary Notes and Statements submitted by Mr. C. H. Kisch, C.B., Financial Secretary, India Office.

(A) Note on "Suggested draft of lines on which a Gold Standard may be embodied in statutory form for India," as explained in Mr. Kisch's evidence.

(B) Note on "Suggested sales of Silver Bullion from the Currency Reserve," furnished by Mr. C. H. Kisch in amplification of the tables in Appendix III of his Memorandum No. 4 (Appendix 72).

(C) Statement showing the monthly balances and interest receipts of the Home Treasury for the years 1912–3 and 1913–4 and 1921–2 onwards.

(D) Statement showing the estimated and actual Home charges and the method of financing them during the four years 1921–2 to 1924–5.

* The actual application of these suggestions will vary according as the responsibilities for currency control rest with Government or are transferred to a central bank.

(A.)

Note on "Suggested draft of lines on which a Gold Standard may be embodied in statutory form for India," as explained in Mr. Kisch's evidence.

1. The Bank shall receive from any person making a demand at the head office in Calcutta or Bombay, or at any other office of the Bank which may be notified by the Bank for the purpose in the Gazette of India, gold bullion or gold coin which is not legal tender in India in exchange for Government rupees or bank notes at the rate of x grains troy of fine gold for Re. 1, subject to conditions to be notified by the Bank in the Gazette of India with the previous approval of the Governor-General in Council.

2. The Bank shall sell to any person in India who makes a demand in that behalf at the head office in Calcutta or Bombay or at any other office of the Bank which may be notified by the Bank for the purpose in the Gazette of India, and pays the purchase price in any legal tender gold at the rate of x grains troy of fine gold for Re. 1, or at the option of the Bank an equivalent amount of gold exchange payable in any country outside India approved by the Governor-General in Council, and maintaining a free gold market, subject to the following conditions, viz. :—

(*a*) No single demand for gold or gold exchange shall represent a less value in gold than approximately 400 ozs. of gold.

(*b*) The "equivalent amount of gold exchange," referred to shall be a sum in foreign currency calculated by the Bank, subject to the approval of the Governor-General in Council, to represent the standard price of x grains of fine gold in the country outside India concerned, less a percentage representing the normal charges of a remittance of specie from India to the country concerned. For this purpose the Bank shall notify in the Gazette of India, with the previous approval of the Governor-General in Council, the country or countries upon which gold exchange shall be issued and the rates of gold exchange per rupee.

(B.)

Note on "Suggested Sales of Silver Bullion from the Currency Reserve," furnished by Mr. C. H. Kisch in amplification of the tables in Appendix III of his Memorandum No. 4 (Appendix 72).

Two statements are attached, showing the result of an hypothetic sale of Rs. 15 crores of silver rupees on certain assumptions regarding the repurchase later of the coin equivalent of the amount sold.

Both statements contemplate that the metallic proportion of the note reserve will be maintained at 40 per cent. and take as their basis a gross circulation of Rs. 190 crores—i.e. approximately the issue outstanding at the end of September 1925.

Each statement assumes that a half-year's interest is earned on the sale proceeds of silver in the year of sale and lost in the year of repurchase. Gold added to the reserve to maintain the metallic ratio at 40 per cent. is assumed to be provided from sale of sterling securities and thus involves a loss of interest, a loss of half a year's interest being taken in the year in which the gold accretion takes place. Interest is reckoned throughout as 3 per cent. compound. Both statements assume that silver is sold at 30*d.* per ounce standard and repurchased at 34*d.* per ounce standard. A larger difference would of course exhibit the project in a more adverse light.

It will be observed that:—

(1) Statement A, which assumes the maintenance of the rupee holding at about 20 per cent. of the gross circulation, shows a net loss of £200,000 at the end of the seventh year.

(2) Statement B, which assumes the maintenance of the rupee holding at about $17\frac{1}{2}$ per cent. of the gross circulation, shows a net loss of £313,000 at the end of the eighth year.

Hypothetical result of selling Rs. 15 crores silver until repurchase of same amount is necessitated in order to keep silver reserve up to (A) Rs. 40 crores and (B) Rs. 33 crores (normal absorption being taken at Rs. 7 crores per annum), and at the same time maintaining the metallic ratio at 40 per cent. in each case.*

STATEMENT A.

Period.	Stock at beginning of year.	Absorption.	Sales at 30d. per standard ounce. Amount	Sales at 30d. per standard ounce. Proceeds.	Purchases at 34d. per standard ounce. Amount	Purchases at 34d. per standard ounce. Cost.	Stock at end of year.	Amount realised from sales (+) or cost of purchases (−).	Half-year's interest on same.	Amount of additional gold required to maintain a 40% metallic ratio.	Loss of interest during the year on sterling securities exchanged for gold.	Interest on net gain or loss at end of previous year.	Progressive gain (+) or loss (−).
	Rs. crores.	Rs. crores.	Rs. crores.	£ millions	Rs. crores.	£ millions	Rs crores.	£ millions.	£ millions.	Rs. crores.	£ millions.	£ millions.	£ millions.
1st year	90	7	5	2·323	—	—	78	+2·323	+·035	—	—	—	+2·358
2nd year	78	7	5	2·323	—	—	66	+2·323	+·035	—	—	+·071	+4·787
3rd year	66	7	5	2·323	—	—	54	+2·323	+·035	—	—	+·144	+7·289
4th year	54	7	—	—	—	—	47	—	—	—	—	+·219	+7·508
5th year	47	7	—	—	—	—	40	—	—	6	—·067	+·225	+7·666
6th year	40	7	—	—	7	3·685	40	−3·685	—·055	—	—·135	+·230	+4·021
7th year	40	8	—	—	8	4·211	40	−4·211	—·063	—	—·135	+·121	—0·267
													Deduct 0·067 (see footnote †)
													Net loss —·*200*

STATEMENT B.

Period.	Stock at beginning of year.	Absorption.	Sales Amount	Sales Proceeds.	Purchases Amount	Purchases Cost.	Stock at end of year.	Amount realised from sales (+) or cost of purchases (−).	Half-year's interest on same.	Amount of additional gold required to maintain a 40% metallic ratio.	Loss of interest during the year on sterling securities exchanged for gold.	Interest on net gain or loss at end of previous year.	Progressive gain (+) or loss (−).
1st year	90	7	5	2·323	—	—	78	+2·323	+·035	—	—	—	+2·358
2nd year	78	7	5	2·323	—	—	66	+2·323	+·035	—	—	+·071	+4·787
3rd year	66	7	5	2·323	—	—	54	+2·323	+·035	—	—	+·144	+7·289
4th year	54	7	—	—	—	—	47	—	—	—	—	+·219	+7·508
5th year	47	7	—	—	—	—	40	—	—	6	—·067	+·225	+7·666
6th year	40	7	—	—	—	—	33	—	—	7	—·214	+·230	+7·682
7th year	33	7	—	—	7	3·685	33	−3·685	—·055	—	—·293	+·230	+3·879
8th year	33	8	—	—	8	4·211	33	−4·211	—·063	—	—·293	+·116	—0·572
													Deduct 0·259 (see footnote †)
													Net loss —·*313*

* One rupee contains $\frac{55}{148}$ standard ounces of silver:—

(i) Value at 30*d*. per standard ounce = £0·04645; (ii) Value at 34*d*. per standard ounce = £0·05264.

† If there were no sales or purchases of silver and absorption proceeded at the same rate as is shown in the statements above, the exchange of sterling securities for gold in order to maintain a 40 per cent. metallic ratio would have taken place in Statement A in the 7th year to the extent of Rs. 6 crores of gold, and in Statement B in the 7th and 8th years, when Rs. 5 crores and Rs. 8 crores, respectively, of gold would be required. The loss of interest which this would involve, calculated as in the table above, amounts to £67,000 in the 7th year in Statement A, and £56,000 in the 7th year and £203,000 in the 8th year in Statement B. The sum of £67,000 should, therefore, be deducted from the loss in Statement A, leaving a net loss of £200,000, and the sum of £259,000 from the loss in Statement B, leaving a net loss of £313,000.

(C.)

Statement showing the Monthly Balances and Interest Receipts for the Home Treasury for the years 1912–3 and 1913–4 and 1921–2 onwards.

Date.	Total balance.	Interest during the year.
1912.	£	
30th April	16,351,547	
31st May	18,962,965	
30th June	16,199,961	
31st July	13,146,764	
31st Aug.	13,373,198	
30th Sept.	13,699,222	
31st Oct.	9,117,207	
30th Nov.	7,574,043	
31st Dec.	9,698,384	
1913.		
31st Jan.	7,993,402	
28th Feb.	9,173,348	
31st Mar.	8,783,970	1912–3 £372,171
30th April	8,665,454	
31st May	10,145,978	
30th June	10,529,034	
31st July	7,520,316	
31st Aug.	7,131,708	
30th Sept.	6,480,196	
31st Oct.	3,998,521	
30th Nov.	4,493,475	
31st Dec.	4,880,120	
1914.		
31st Jan.	4,833,388	
28th Feb.	7,123,843	
31st Mar.	8,132,770	1913–4 £205,690
1921.		
30th April	6,582,207	
31st May	9,524,452	
30th June	10,046,163	
31st July	7,872,344	
31st Aug.	6,170,590	
30th Sept.	5,285,756	
31st Oct.	2,012,933	
30th Nov.	3,600,978	
31st Dec.	3,748,976	
1922.		
31st Jan.	2,406,841	
28th Feb.	2,600,141	
31st Mar.	9,052,175	1921–2 £228,341
30th April	7,533,757	
31st May	6,247,463	
30th June	5,844,030	
31st July	9,473,984	
31st Aug.	10,306,807	
30th Sept.	10,771,142	
31st Oct.	7,693,386	
30th Nov.	11,061,648	
31st Dec.	12,904,644	
1923.		
31st Jan.	13,445,508	
28th Feb.	13,593,487	
31st Mar.	9,895,338	1922–3 £153,152
1923.	£	
30th April	7,110,908	
31st May	7,036,570	
30th June	11,904,792	
31st July	14,358,835	
31st Aug.	20.827,118	
30th Sept.	22,897,145	
31st Oct.	26,449,421	
30th Nov.	26,061,603	
31st Dec.	20,628,356	
1924.		
31st Jan.	12,052.585	
29th Feb.	11,366,646	
31st Mar.	10,671,310	1923–4 £387,385
30th April	12,507,225	
31st May	10,901,228	
30th June	11,420,770	
31st July	11,079,952	
31st Aug.	10,372,111	
30th Sept.	15,390,009	
31st Oct.	21,838,130	
30th Nov.	19,415,101	
31st Dec.	22.425,456	
1925.		
31st Jan.	15,646,959	
28th Feb.	14,834,163	
31st Mar.	13,315,399	1924–5 £461,135
30th April	10,352,081	
31st May	8,795,957	
30th June	12,081,240	
31st July	9,025,603	
31st Aug.	10,867,404	
30th Sept.	17,911,954	
31st Oct.	16,089,531	
30th Nov.	15,653,787	
31st Dec.	15,754,483	
1926.		
31st Jan.	16,230,001	
28th Feb.	17,281,489	to 28.2.26 £410,453
31st Mar.	16,195,813	1925–6 (forecast) £461,962

(D.)

Statement showing the Estimated and Actual Home Charges and the method of financing them during the four years 1921-22 to 1924-25.

1921-22.

Home Charges.	Budget.	Actuals.	Financed as follows.	Budget.	Actuals.
	£	£		£	£
Net expenditure	27,561,300	27,748,980	Debt (including debt of Railway Cos.)—Net receipts	5,000,000	14,805,114
Capital expenditure not charged to Revenue:			Transfers through Paper Currency Reserve	8,350,000	2,501,159
Railways	14,336,800	13,564,664	Transfers through Gold Standard Reserve	2,500,000	—
Irrigation, &c., Works	35,400	490,939	Net recoveries from Imperial Government	29,073,300	27,144,167
New Capital at Delhi	286,700	159,778	Miscellaneous: Remittance and Deposit items—Net receipt	—	160,286
Bombay Development Scheme	945,000	746,410	Decrease of balance	1,355,100	—
Indian Posts and Telegraphs Department	1,000,000	—		46,278,400	44,610,726
Public Works Department	110,000	—	*Less*—		
			Purchase of gold	100,000	109,913
			„ silver	—	1,384
			Miscellaneous: Remittance and Deposit items—Net payments	1,903,200	—
			Increase of balance	—	1,788,659
	44,275,200	42,710,771		44,275,200	42,710,771

1922-23.

Home Charges.	Budget.	Actuals.	Financed as follows.	Budget.	Actuals.
Net expenditure	32,182,200	30,238,071	Debt (including debt of Railway Cos.)—Net receipt	18,503,200	31,329,605
Capital expenditure not charged to Revenue:			Transfers through Paper Currency Reserve	5,346,800	—
Railways	18,465,000	9,868,149	Transfers through Gold Standard Reserve	10,500,000	—
Irrigation, &c., Works	324,900	407,659	Net recoveries from Imperial Government	12,153,400	3,365,481
New Capital at Delhi	181,000	179,037	Council Bills	—	2,570,026
Bombay Development Scheme	221,100	259,088	Sterling purchased in India	—	70,000
			„ obtained in England	—	2,126,211
			Miscellaneous Remittance and Deposit items—Net receipt	1,612,300	2,315,931
			Decrease of balance	2,758,500	—
			Less—	51,374,200	41,777,254
			Transfers through Paper Currency Reserve	—	546
			Increase of balance	—	824,704
	51,374,200	40,952,004		51,374,200	40,952,004

1923-24.

Home Charges.	Budget.	Actuals.	Financed as follows.	Budget.	Actuals.
Net expenditure	30,354,074	29,553,769	Debt (including debt of Railway Cos.)—Net receipt	15,119,800	17,537,545
Capital expenditure not charged to Revenue:			Net recoveries from Imperial Government	4,787,400	5,645,713
Forest	2,200	636	Transfers through Paper Currency Reserve	5,845,000	—
Stationery and Printing	—	8,500	Council Bills	22,155,000	8,738,705
Improvement of Public Health	—	1,918	Sterling purchased in India		13,100,000
Railways	19,000,000	9,897,765	„ obtained in England		1,302,959
Irrigation, &c., Works	555,276	242,529	Sale of gold in India	—	2,000,000
New Capital at Delhi	85,800	60,660	Miscellaneous Remittance and Deposit items—Net receipts	—	300,703
Bombay Development Scheme	117,900	142,922	Decrease of balance	2,915,100	—
Hydro-Electric Schemes	—	223	*Less*—	50,822,300	48,625,625
Industrial development	1,450	—	Transfers through Paper Currency Reserve	—	8,151,707
			Increase of balance	—	564,996
			Miscellaneous Remittance and Deposit items Net payment	705,600	—
	50,116,700	39,908,922		50,116,700	39,908,922

1924-25.

Home Charges.	Budget.	Actuals.	Financed as follows.	Budget.	Actuals.
Net expenditure	30,110,690	26,897,570	Transfer through Paper Currency Reserve	10,000,000	—
Capital expenditure not charged to Revenue:			Council Bills	—	7,579,162
Railways	11,568,400	6,324,235	Sterling from India	26,000,000	33,191,000
Irrigation Works	1,124,668	493,237	„ „ England	—	700,000
New Capital at Delhi	53,800	52,946	Net recoveries from Imperial Government	5,107,000	3,060,825
Bombay Development Scheme	76,112	12,688	Miscellaneous Remittance and Deposit items—Net receipt	—	17,506
Miscellaneous	420	5,627	Decrease of balance	2,824,490	—
			Less—	43,931,490	44,548,493
			Debt (including debt of Railway Cos.)—Net discharge	244,300	235,221
			Enemy Ships: Revenue Transfer	—	1,400,000
			Transfer through Paper Currency Reserve	—	5,996,636
			Miscellaneous	—	—
			Remittance and Deposit items (net payment)	753,100	—
			Increase of balance	—	3,130,333
	42,934,090	33,786,303		42,934,090	33,786,303

APPENDIX 76.

Statement* of evidence submitted by Sir James Brunyate, K.C.S.I., C.I.E.

I.—Preliminary.

I have had the advantage of seeing the memoranda which have been prepared in the Finance Departments of the Government of India and the India Office and communicated, as I understand, to the Royal Commission.

2. In the present re-examination of the Indian Currency problem the Royal Commission are confronted with a number of new conditions: the rehabilitation of sterling; the *de facto* stabilisation of the rupee at 1*s.* 6*d.*; the balancing of the Indian Budget; the reattainment of normality in silver prices; and so forth. Without attempting to distinguish between the relative importance of all the new, or now specially significant factors, I may refer to the following as having doubtless specially influenced the personal opinions expressed below:—

(i) The change of attitude among monetary authorities in regard to the self-sufficingness of a gold standard and to the methods of operating it.

(ii) The remarkable extent to which the note-using habit has developed in India in recent years.

(iii) The experience gained of a unified Imperial Bank for India and the resulting extension of branch business.

3. The proposals of the Indian Finance Department embrace two main projects: (1) the establishment of a gold currency, and (2) the investment of the Imperial Bank with certain important functions of a Central Bank. Speaking generally, I think the first proposal open to decisive objection. I see advantages in the second, and not least the fact that it tends to withdraw monetary problems from the political arena. But it is a serious drawback that the only institution available for the *rôle* of Central Bank should be a Bank so definitely commercial in character.

II.—Choice of Standard.

4. In the last few years India has had an interesting and not unsuccessful experience of a "free currency." There is no doubt, however, that she should settle down again upon a gold basis. But she should realise what a gold standard now means: a managed currency with the management centred in New York, or at the best, concerted between the Federal Reserve Board there and the Bank of England in London, each acting, I assume, in close touch with its respective Government. India cannot expect an equal voice in this determination of common policy, but she should get what hearing she can. I think it important, therefore, (1) that machinery should be established in London for regular joint consultation between the Governor of the Bank of England, the London representative of the Imperial Bank of India and a representative or representatives of the Secretary of State in Council; and (2) that India should hold a considerable stock of gold. I incline towards holding that gold in India as the best means in actual practice of securing independence in the use of it. But if that is to be the case the exchange arrangements should be such that it may be freely used. [See para. 21 (C) below.]

5. I wrote above of a "gold basis," postponing for the moment the question of choice as between (*a*) a "gold standard" (*b*) a "gold exchange standard" and (*c*) a "sterling exchange standard." I hope I may be excused for dwelling on this question.

6. In the Government of India memoranda the possession of a gold currency is taken as the distinguishing feature of a gold standard. A standard based on gold but not accompanied by effective arrangements for the circulation of gold is treated as an "exchange standard." The idea that a gold system is not complete unless gold is the principal circulating currency is now, I think, rather old fashioned. As regards India in particular, we all held that view some 25 years ago, and apparently a considerable body of Indian opinion holds it now. The hope† then, I

* This statement was prepared prior to the receipt of the Royal Commission's questionnaire.

† Cf. "India and the Gold Standard," by Sir Henry Howard, K.C.I.E., C.S.I., page 46, para. 25 (1); also page 19 *ibid.*

think, was that the gold would return from circulation in times of depressed trade and so become a source on which to rely for the provision of sterling remittance. This expectation was from the first, I suspect, vain, and looking to the scheme actually before me I do not see any real probability that with 200 crores of notes and 150 crores of rupees in circulation, and perhaps 150 to 200 crores of bank deposits a redundancy of purchasing power will express itself, to any helpful extent, in the return of the relatively marginal supply of circulating gold.

The pre-war policy, which passed, I believe, about 100 crores worth of sovereigns into circulation prior to the outbreak of war, was not it is true assisted by the creation of an artificial vacuum through the forced withdrawal of rupees. But it synchronised with a constantly increasing demand for currency. It did have the effect of creating a limited circulation of gold, but there was never, I think, any indication of a helpful reflux of gold.

I would submit that a gold currency, though it may reasonably be considered on its own merits (see Section III below) should not be looked on as an integral feature of a gold standard.

7. Indeed with the use of gold coin abandoned in the United Kingdom and insignificant, I believe, in the United States, it is rather a question whether there still remains any essential distinction between a "gold standard" and a "gold exchange standard." I suppose it lies in the use of gold as the ultimate medium of international adjustments as distinguished from a mere undertaking to provide unlimited external credits, a procedure which suggests, and may, I think, come in some measure to entail, a relationship of monetary subordination to the centre on which the foreign credits are given. It is noteworthy, however, that the arrangements made by His Majesty's Government and the Bank of England for supporting the sterling exchange include the provision of credits in New York, and, generally, the policy of maintaining exchange by external credits is now, I should say, a fully accepted feature of post-war practice.

8. As regards this point, which is discussed in para. 21 (C) below, my conclusion as regards reverse remittance is in favour of reliance primarily upon issues of gold at par. As regards inward remittance, an immense part must, in India's special circumstances, be effected by the sale of rupee credits, but gold when imported and tendered to Government should be freely accepted at par. On this basis India would, I think, have a "gold standard" as distinguished from a "gold / "sterling exchange standard" in the fullest and most practical sense of that term as now understood.

9. The question will still arise, however, for certain purposes, of "gold" *versus* "sterling." I feel no doubt that the stabilised rupee of the immediate future should be a rupee expressed in sterling. It would be idle too to assume that a mere prescription that demands for outward remittance should be granted in alternative forms of gold currency (dollars or sterling) at the option of the applicant would in itself effect anything. But there is, I think, a point of substance involved, namely, the question whether the Reserves should be specially constituted with a view to facilitating a turnover from a sterling to a dollar basis in the event of the status of sterling becoming at any time insecure. For example: (*a*) should a larger proportion of gold be held in the Reserves than would be necessary if the status of sterling were fully assured? (*b*) Should a proportion of the securities held be dollar securities? (*c*) Should the sterling securities held be exclusively British Treasury Bills as long as these continue to be available?

10. I will deal briefly with these points. I am a little inclined to think it an excess of caution to provide deliberately for a failure of sterling. But on general grounds there is a good case for a considerable gold holding and for holding sterling securities only in the most realisable form. The idea of holding dollar securities as well is at first sight rather fantastic, but India is likely to be a large and uneasy holder of exchange reserves, and while from her point of view it may be advantageous to spread her risks, it might be also of advantage to London to spread a possible strain in the event of exchange weakness in India synchronising with exchange weakness there. The arrangement would mean in effect that India would have dollar credits in New York instead of relying on London to provide them for her, if the occasion for seeking them should ever arise.

III.—Question of a Gold Currency.

11. A gold currency can only maintain itself in India if the persistent demand for gold as a commodity or as a store of value is kept constantly satiated. The dimensions of that demand are very large and very fluctuating. I cannot help thinking that this fact alone introduces an element of unevenness and precariousness sufficiently serious to make gold a rather unsatisfactory currency medium. But however that may be, I think the great advance which India has recently made in the use of notes should preclude the idea of so retrograde a step as the forcible introduction of gold. The point is fully brought out in the India Office memoranda.

12. I subscribe to the view that India should not be hampered in obtaining the gold she requires. She already does this in ample measure through trade channels, and should continue to do so. I would also, as the India Office memoranda suggest, accept gold freely when imported; allow tenderers the facility of getting gold converted into sovereigns; and recognise the sovereign as legal tender: so that holders of gold could hold it to the maximum advantage. But I would cease to issue it except for export. This would represent a sharp departure from past practice, but it would be facilitated by the long disappearance of gold from actual circulation in India. I think that the Government of India memoranda are right in seeking for some clear decision as to the future place of gold in the Indian monetary system. We should work definitely towards a gold currency, or definitely adopt as normal practice the use of gold exclusively for supporting exchange.

13. The practical objections to the Indian Finance Department's scheme for introducing a gold currency are fully brought out in the India Office memoranda: the unreality of the project, which will in effect instal a double currency system with the inconvenience incidental thereto; its cost, namely, a capital outlay sufficient to build New Delhi several times over, and an even more than proportionate revenue loss; its exceedingly drastic character, for the policy which informs it is surely that of "hacking one's way through" rather than of the tentative* statesmanship essential to such an enterprise; and its completely speculative character, in so far as it ignores the really grave risk of destroying the note-using habit. It is, perhaps, worth noting with reference to such criticisms as the last, that it is not necessary to the validity of an objection that the risk which it apprehends should be a demonstrable probability. A mere chance—if substantial—that the new policy will lead to the replacement of the smaller notes by gold would make the whole scheme a gamble.

IV.—Choice of Rate.

14. I think the rupee should be stabilised at 1*s.* 6*d.*, the rate already established. It has been proved by experience to be consistent in good years with the retention of a very large balance of trade in India's favour. [It may be noted here that a helpful feature in India's case is the size and elasticity of her demand for the precious metals, which give her an unusual power of accommodation to all ordinary variations in the trade balance, as reckoned on private merchandise, without seeking the aid of the special exchange machinery.] The price data in the two sets of official memoranda do not appear to contra-indicate the rate suggested. I speak guardedly on this point, however, because I am not very confident of the value or complete relevance of the data themselves. Nor again does there seem to have been such a degree of inflation, measured in terms of circulating currency and bank deposits as should make the present rate unsuitable. The available material on this point will perhaps be of interest, though precarious as regards the calculation of the rupee circulation and incomplete in taking the Imperial Bank, the Exchange Banks, and the Joint Stock Banks as the sole representatives of the country's credit machinery.

15. Between 1914 and 1925 the circulation of rupees and notes has increased from roundly 240 to 400 crores. The deposits† of the banks above-mentioned rose from

* If a gold currency had to be introduced it is a question whether this could not be done with less risk and upheaval, and also less cost, by discontinuing rupee coinage and issuing notes and gold until normal wastage and the growing aggregate demand for currency had reduced the extant rupees to a quantity only sufficing for everyday retail requirements. Such a method would admit of the steps taken being retraced if the experiment broke down.

† But with a deduction of one-third from the private deposits of the Presidency Banks (now Imperial Bank) to allow, as well as may be, for the fact that they hold part of the balances of other banks. The Government deposits are of course not taken.

about 80 crores at the end of 1913 to just over 160 crores at the end of 1923, the latest year for which I have particulars. The slender gold currency of the pre-war period has disappeared from circulation. These figures run fairly parallel to those of the United Kingdom, where £9 of notes per head are now said to be in use as compared with £4 of notes and gold per head before the war, and the deposits of the English Joint Stock Banks have risen from just over £800 millions to about £1,800 millions. Such statistics, of course, will never settle whether exchange should be fixed at this precise figure or that. But they may fairly be taken as suggesting that the present position is probably not fundamentally unsound. They help to transfer the burden of proof.

16. I have seen it objected that a 1*s*. 6*d*. rate has not yet been tested by an unfavourable monsoon. This difficulty would have been no less whatever *de facto* established rate had emerged from the currency convulsions of the post-war period. In this respect the responsibility lying upon the Royal Commission in recommending any named rate is far less onerous than that which the Fowler Committee faced in 1899. If the objection really means that after experience of a series of busy trade years followed by a deficient monsoon and slack trade a compromise rate, as it were, could be selected as fairly well adapted to good and bad years alike, it is, I think, wrongly conceived. Any rate established over a period of normal years must tend to break down in bad years unless sustained by the exchange machinery.

V.—Reverse Remittance and the support of Exchange.

(a) General Considerations.

17. The India Office memoranda bring out the fact that the accepted pre-war policy of supporting exchange "with all available resources" was fundamentally qualified. The sterling offered was not freely issued: it was doled out in "stated amounts weekly." Thus in 1920 a disparity was set up between the rate for reverses and the effective market rate of exchange. This limitation of offers of sterling was quite deliberate, and such a disparity might well arise even in a less abnormal crisis.

18. Under a fully operative gold standard no such limitation is recognised. In principle gold is freely issued for export. But (1) the issuing country relies on the discount rate to correct an excessive outflow. (2) It is also the tendency of modern practice to employ the discount policy to regulate credit and prices *antecedently* and thus limit the function of gold to marginal purposes. (3) The financial public accepts the necessary deflation. (4) They understand, too, that the maintenance of exchange is not an absolute obligation; or better perhaps, that, in the still unsettled conditions, temporary departures from the strict doctrine of a gold standard may from time to time be found necessary (cf. the "embargo" on foreign loans).

19. Speaking broadly, the first safeguard has as yet but limited scope for application in India in a period of exchange weakness. The policy of (2) is not, I suppose, applicable at all, though one may refer, perhaps, in this connection to the valuable practice now introduced of issuing "seasonal currency" on the security of trade bills. As regards (3) the Indian money markets are, I think, disposed to be somewhat specially intolerant of deflation, and it is this intolerance, I think, rather than any shortage of gold and sterling reserves, which may set a limit to the possibility of supporting exchange through a crisis of special severity. As regards (4), again, I think there is a disposition to expect more from the Government in India than the controlling authority can, as yet, wisely undertake as an absolute obligation, on the same plane, let us say, as a Government's obligations to its debt-holders. This consideration by itself, I think, suggests a strong objection to the retention by Government of undivided responsibility for exchange.

20. I deduce that Indian conditions are somewhat specially adverse to the efficiency and smooth working of a gold standard system, and that the great desideratum is to get on to lines of development which will eventually better those conditions. Meanwhile, failing more delicate methods of internal adjustment, though exchange may perhaps be sustained by sheer weight of reserves, the machine will be apt to work roughly and to cause the maximum of external disturbance.

(b) Suggestions.

21. I pass on to the particular suggestions which I would submit for the consideration of the Royal Commission :—

(A) Any gold or gold exchange system must be based on the two principles of—

(a) unlimited acceptance of imported gold at par (or unlimited issues of rupee credits at upper gold point);

(b) unlimited issues of gold for export at par (or unlimited issues of sterling credits at lower gold point).

I would adopt these principles in the Indian system, discarding the "dole" system hitherto in vogue for reverse remittance.

By "unlimited issues of gold" I mean unlimited in principle, but not exempt from such restraint as a Central Bank with high prestige may informally impose in the general interest. I would also recognise the "ear-marking" of Indian gold for London when it is thought desirable and is found possible to arrange it.

(B) I would hand over the note issue and exchange machinery, with their reserves, to the Imperial Bank for administration, subject to suitable arrangements for the association with the Imperial Bank in that duty of (1) the Government of India in India, and (2) the Secretary of State in Council in London (see, however, para. 24 below).

(C) I would rely for the support of exchange on gold issues for export rather than on the grant of sterling credits.

This, I presume, must be intended ultimately under Sir B. Blackett's scheme, and though I cannot think the change will be very welcome to Indian trade there is, I think, much to be said for it.

It is the actual practice under other gold systems which India is anxious to emulate. It offers some impediment, I take it, to the abuse and exploitation of remittance facilities, and it supplies a real function for gold held in India.

The privilege of unlimited credits in external money centres is a very generous facility, and I am not sure that it has been both conceded in theory and unreservedly applied and tried out in practice elsewhere. I have suggested already (para. 7 above) that it may give rise to a relationship akin to subordination to the money centre on which the credits are given. I suggest, too, for consideration, that in so far as Government and the Central Bank undertake the supply of unlimited credits they tend to hinder ordinary banking development, just as the supply of gold from huge central reserves necessarily renders superfluous any banking effort to draw gold from circulation.

It would seem also that a correctly operating system for remedying exchange weakness should not only be deflationary in its local effect, but inflationary in its external effect. This requirement is not met by the issue of credits. It would be met by the export of gold except in so far as it may be the policy of the receiving countries to regulate the expansion of credit independently of the state of their gold holdings.

(D) A policy of free issue of gold for export, or of unlimited sterling credits, demands considerable strength in gold and the highest degree of liquidity in other reserves (see paras. 9 and 10 above), and the reserves should be constituted accordingly. Such a policy is not, I think, consistent with a simultaneous effort, implying great dissipation of resources, to establish a gold currency.

(E) In some way—and I can see no better way than a pronouncement of this Commission, for the matter cannot be codified—the need during periods of exchange crisis for a considered policy of deflation requires to be emphasised. The normal conventions on the subject should be, as it seems to me, (i) that all gold export (or special sterling credit) transactions should be passed through the Paper Currency Reserve; (ii) that accretions to the Imperial Bank's balances (via "public deposits") through the discontinuance of the Secretary of State's drawings, should not be made the basis of an enlargement of credit; (iii) that credit generally should be restricted, and the Bank rate employed for this purpose as far as may be. "Policy" would lie in determining whether and how far these conventions should be departed from with reference to the circumstances of a particular occasion. This, it may be said, is what the Bank would do anyhow. But the matter is of great moment and calls for some formality.

(F) Such a deflationary policy might well be fortified, at any rate in a very prolonged period of depression, by the sale in India as bullion of the redundant rupees which return in periods of slack trade. This would tend to curtail purchasing power in strata not readily reached by banking influences.

VI.—Inward Remittance and the Secretary of State's Drawings.

22. As I do not advocate the transfer of silver purchases for rupee coinage to India and the Secretary of State's ordinary drawings can obviously be most conveniently met by bills of some kind, I contemplate that inward remittance would not be effected by gold movements, except so far as might be necessary from time to time to bring the Indian gold holding up to the accepted standard strength. As regards the bulk of inward remittance, therefore, the choice of method will, under my proposals, lie between (*a*) sale of bills by open tender in London, (*b*) purchase of sterling by open tender in India, or (*c*) purchase of sterling in India by the Imperial Bank on the lines recently followed.

Whatever method is adopted there would naturally be, under a correctly operating system, (*a*) a standing and unlimited undertaking to accept gold in India at par, and (*b*) at times when it was desired that gold should not be imported and tendered to Government, an unlimited undertaking to give Indian currency at upper gold point in exchange for sterling in London.

23. The present method of remitting [(*c*) above] has worked well in the special circumstances in which it was introduced, and in the circumstances, also abnormal, of the present time, and has, I think, proved itself a valuable innovation. I see nothing unmistakeably wrong in principle, though something to question in practice, in the view that the Secretary of State as a remitter on his own account should be free to operate on either side and as and when he judges best. No one in England, for example, expects the Bank of England to inform the world from day to day as to the progress it is making with preparations for remitting American debt. But it would be wrong and inappropriate to employ the secret method of purchasing sterling as the procedure by which to implement a general undertaking to supply unlimited rupee currency at upper gold point. The parallel to that would be the concealment of the inward movements of gold in this country. These two objectives of remittance, i.e. (i) the provision of the Secretary of State's requirements, and (ii) the maintenance of exchange at or within upper gold point, so largely overlap that there will be very little real scope, I think, for the employment of present methods, when more normal currency conditions have been re-established as the outcome of the Royal Commission's present labours. Finally, there is great practical force in the view that the Secretary of State is too dominating a factor in the restricted monetary world of India to claim the full liberties and privacy of a private remitter. I would not completely disallow the present system, but I think its chief usefulness will be at times when a period of exchange weakness is giving place to one of returning strength. At such transitional points it offers, I think, the best and a quite legitimate means of feeling the pulse of the market. When so used I think it should be accompanied by, say, the weekly disclosure of the amounts and rates negotiated.

VII.—Transfer of Central Banking Functions to the Imperial Bank

24. The expression of my views in para. 21 (B) is subject to proper consideration of the objection that the Imperial Bank is disqualified from exercising the functions of a Central Bank by its commercial character.

This objection (1) may be final and decisive; or (2) it can possibly be met by appropriate safeguards or restrictions.

As to (1), I have not the expert knowledge to estimate the weight to be attached to this objection. Similarly, as regards (2), I cannot, in any technical way, suggest safeguards. But I think that on this and other grounds there are, as I have already suggested, good reasons for associating the Governmental authorities both here and in India with the Bank in the determination of high monetary policy. The Government cannot divest themselves of ultimate responsibility for India's monetary well-being or, specifically, for great sums of public money made over to the control of a commercial institution. The choice lies, I think, between the creation of a Central Bank *ad hoc*, which might be premature now though probably an ultimate development, and a close association between Government and the only available alternative—the only

institution, too, which can systematically address itself to the extension of sound banking throughout India.

My inclination is to postpone the true Central Bank for the present and try, with any safeguards which expert advice may suggest, what is possible on the lines of the Indian proposals.

VIII.—Conclusion.

25. In these observations which I respectfully submit for the Royal Commission's consideration, I have felt and still feel perplexity on certain points (the gold export question and the banking question). But I think there can be little doubt as to the main aims to be associated with the immediate task of putting India's currency system on a gold basis. The latter object can be efficiently achieved by a "gold standard" (with or without a gold currency) or, as Sir Basil Blackett has shown in his Minute, with a "gold exchange standard." But (1) a sound standard to-day postulates banking control and a widely extended and closely inter-related banking system, and we have to try to foster that; and (2) there is, as it seems to me, a tendency for the monetary world to group itself, with the United States of America and the United Kingdom acting in concert as the dominant group, while later convalescents from exchange troubles fall into a status of something approaching monetary tutelage. It is perhaps some instinctive perception of this which lies behind the demand for a gold currency. I think that any new currency scheme for India should consciously aim at securing to her the maximum degree of monetary independence.

APPENDIX 77.

Supplementary Note by Sir James Brunyate, in reply to questions of Sir Purshotamdas Thakurdas on the subject of Government Remittances.

I.—Questions by Sir Purshotamdas Thakurdas.

1. A witness before the Royal Commission has said: "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind." Do you agree with this?

2. It has also been said that "the action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead." Does your experience at the India Office warrant your agreement with this?

3. What inconvenience, if any, would be caused to the Secretary of State if his requirements for sterling in London were supplied in accordance with his obligations, thus obviating the necessity for keeping such large balances in England as are referred to in the Report of the Controller of the Currency for the year 1924–5, viz.: minimum balance £10,403,565; maximum £22,718,629; average £15,120,145; the annual requirements of the Secretary of State being in the neighbourhood of £30,000,000?

II.—Note by Sir James Brunyate.

1. The Chairman asked me to submit a note on these questions and remarked (I write from memory) that they opened up far-reaching issues. That is indeed the case, though I have endeavoured to keep away from the remoter aspects of the remittance problem as much as possible.

I have assumed, for the purposes of the note, that a true Central Bank is established, holding the Treasury balances in India and London, transacting the remittance business of Government and managing the paper currency reserve. I assume also that gold is caused to be sent to India (by the discontinuance of councils and sterling purchases) for tender to Government to that extent only which may be

required under some independently accepted policy on the question of the gold holding (c.f. para. 22 of my written statement).

I propose to refer throughout to the "Indian Administration" (i.e. Secretary of State in Council *plus* Government of India) rather than to the Secretary of State in Council except where it is necessary to particularise the latter. The remittance question is in essence one which any unitary Government would have to face whose financial commitments and monetary system both required the provision of funds on a large scale in an external money centre.

2. *Question* 1. I am not told the context in which the statement cited in this question was made. I assume that it had reference to the Indian Finance Department's enumeration* of "principles" by which "the demands of Government on the Bank would be regulated" and especially to the principle rather cavalierly stated that the "India Office" would have to give the Bank "a definite demand for each month made some time before the beginning of the month, the amount of which the India Office would not be able to alter without the consent of the Bank."

I agree with the witness, if he meant, as I take him to have meant, that the idea of the Indian Administration pledging itself to its bankers to be bound finally by a forecast of its requirements is inadmissible. I suggest that the true principle is that the relations between the Administration and the Central Bank in this matter will be those of depositor and banker. These relations include in principle the right of the depositor (*a*) to get his money when he wants it and (*b*) to use it to his best advantage while he does not want it, the term "best advantage" in this case meaning of course the best advantage of India. Or alternatively, I would say that for this purpose the relations between the Indian Administration and the Central Bank should (*mutatis mutandis*) be those subsisting between His Majesty's Government and the Bank of England.

3. Passing from principles to practice, there is no doubt, of course, that the Administration, realising that it is an uncomfortably powerful customer, and being as closely interested in the proper functioning of the Bank as the Bank itself, will give the Bank all the assistance it can and show it at all times the highest consideration in dealing with difficulties inherent in the management of its account. The Bank on its side will, I think, realise that to hold the Administration's funds where they are wanted and to have them available when they are wanted is a primary obligation and will not be fidgeting itself to cut matters so fine that it must fall back on the plea that a forecast of some weeks back is not being fulfilled. Assuming, as we ought to do, a correct attitude on both sides, I think it is a little idle to try to "regulate" matters of routine which the parties will settle for themselves when they get to work.

4. *Question* 2. The "remittance of Government balances from India to England" is the counterpart and consequence of the trade demand for remittance from England to India. The Indian Administration does not say: "We are short of funds at home or we have excess funds piling up in India; let us sell councils (or buy sterling) and remit the surplus." What it says in effect is: "There is a keen trade demand for remittance to India just now; we must meet it, or trade will be hampered." (Or alternatively, for it depends on the standpoint:† "The trade demand is keen; now is a good time for getting some of our funds sent home.")

Thus the difficulty of forecasting the dates and amounts of Home remittance is not solely a difficulty arising from uncertainty as to the pace and amount of the Administration's outgoings in London or its incomings and outgoings in India; but also the difficulty of forecasting the volume of the trade demand for remittance and the periods at which it will come forward in strength.

* Mr. Denning's Memorandum on "Transfer of Management of the Paper Currency to the Imperial Bank of India," para. 16.

† See Report of the Babington Smith Committee, para. 61: "We agree with the Chamberlain Commission in holding that council drafts are sold not for the convenience of trade but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf in the widest sense of the term." (The whole paragraph should be read.) I do not think it is possible fully to subscribe to this when now envisaging future conditions. If these two objects of Home remittance admit of discrimination, I prefer to give priority to the trade, i.e. the monetary aspect. Personally I think them complementary. In the long run and as a matter of theory, the need of trade for remittance to India is identical with the Administration's need for funds in London.

The first difficulty is great* and the second is insuperable. It demands, not the statistician's gift of estimating, but that of prophecy.

5. *Question* 3. The system of financing the Home Treasury must not only provide for meeting obligations at due date, but be consistent with the use of surplus funds (wherever located) to the best advantage, and in particular with due regard to sound monetary conditions.†

6. I have just said that the amount of remittance to London is the counterpart of, and dependent on, the demand for trade remittance to India. The sums remitted to London by the satisfaction of this demand are assigned, in the first instance, towards providing the immediate requirements of the Home Treasury so far as the Administration's Treasury balances in India have sufficient surplus for meeting them. If the surplus is not sufficient the Administration will have to borrow in sterling. If it is more than enough further receipts in England are credited to the Administration's Home Treasury account. When the whole surplus of Treasury balances in India has thus been drawn off any further trade demand for remittance can only be satisfied by the crediting of receipts for bills to the paper currency reserve in London and the disbursement of currency to the payees from the paper currency reserve in India. Thus the total credited to the Treasury balances in London, *plus* the amount credited to the paper currency reserve in London, is equivalent to the total trade demand‡ whatever that may be. If Indian Treasury funds are low less will go to the Home Treasury and more to the Home branch of the paper currency reserve. If Indian Treasury funds are ample more will go to the Home Treasury and less to the Home branch paper currency reserve. A case conducing designedly to the latter result is where, as in recent years, the Administration effects all its borrowing in India, including provision for a large part of the Home requirements on capital account. Another case is when revenue and other receipts exceed and expenditure falls below anticipation.

7. Primarily then, and dealing for the moment with the London side only, the policy to which these questions tend, of stringently keeping down the Treasury balances in London to a real minimum, would only enhance the amounts requiring to be credited to the paper currency reserve in London. In either case the sums in question would probably be invested in British Treasury bills, and, so far as the London side of the matter is concerned, the policy would apparently be nugatory.

8. I turn next to the Indian side. If an unintended surplus of Government balances accrues in India the Central Bank may adopt one of three alternatives :—

(*a*) Keep the unintended surplus inert, i.e. refrain from making it a basis for the creation of credit ;

(*b*) Release it, as it were, to trade by granting credit on the strength of it ;

(*c*) Release it to trade by meeting council drafts or purchasing sterling from this source instead of from the paper currency reserve in India.

Alternative (*a*) would not ordinarily, I think, be the correct course. The unexpected yield of taxation and borrowing or economy of expenditure which has produced the unintended surplus balance is equivalent to arbitrary deflation and normally needs to be corrected by the release of the funds thus drawn into the

* The uncertainty surrounding the forecasting of Ways and Means is well brought out in para. 27 of Sir Basil Blackett's speech introducing the Budget for 1926–7 :—"I am inclined to think that the phraseology consecrated by long usage in Indian budget speeches which refers to the Ways and Means portion of the statements as a 'Ways and Means Budget' is somewhat misleading, in that it may tend to give the public the impression that the figures and estimates in the Ways and Means portion of the budget make a claim to comparative exactness not inferior to that made by the figures of our revenue and expenditure estimates. Our Ways and Means budget is intended to be and necessarily must be illustrative rather than exact. The Ways and Means figures bring together the net results of operations of very varying character all over India and Burma and in London. To a large extent these operations are either not under the control of the Government of India at all or only very indirectly under their control . . . In these circumstances it is neither possible nor desirable to attempt to lay down a rigid Ways and Means programme far in advance. The only result of doing so would necessarily be to swell our balances needlessly."

† See first footnote to para. 4.

‡ It would take me too far from any purpose disclosed in these questions to discuss the whole question of how far action by the Administration and Central Bank can influence, and should be directed towards influencing, the volume of the total trade demand for remittance, but I think that in every instance the case for such action would be found to stand or fall on its own merits. The case of gold shipments is touched on in para. 22 of my written statement : that of lending surplus balances in India *versus* remitting them to London, is examined later in this note as my questioner may perhaps have had it in mind.

central banking balances. The choice between alternatives (*b*) and (*c*) presents a banking problem. The distribution of credit by means of the remittance method [alternative (*c*)] directs credit automatically into channels of trade where it is undoubtedly wanted. It also, *pro tanto*, effects, instead of postponing, the adjustment of the balance of trade. Normally it is, I think, the right course. But exceptionally, perhaps, there may be conditions of stringency justifying the creation of credit but more or less independent of the monetary requirements which the sale of councils and sterling purchases directly satisfy. In such cases it might be right to use high banking balances, originating in undesignedly high Government balances, for this purpose, leaving requirements directly connected with external trade to be financed through councils or sterling purchases adjusted through the paper currency reserve.

9. I should add, perhaps, that a Central Bank, in the exercise of its regulating functions, might in practice find somewhat wider scope for the employment of discretion in moving Government funds than the limited case which I have ventured to formulate. But such an authority would certainly recognise the principles (1) that the building up and retention of excessive Government balances as a normal means of supplying loanable capital is not sound practice; and (2) that remittance through the paper currency reserve, at a time when remittance through Treasury is practicable, involves inflation, and ultimately, therefore, a correcting deflation.

10. Finally it may be added (1) that surplus balances in England are earning interest for Government while surplus balances in India are not; and (2) that if surplus balances have in fact accrued at home there is no point in letting that interest go to the bank (which would invest them on its own account if the Indian Administration did not) instead of to the revenues of India.

11. My views and conclusions are:—

(1) The maintenance of the Home balances at a minimum is not an end in itself and needs neither to be sought after nor deprecated. The contrary view arises, I think, from looking at the Home Treasury as a mere disbursing office and forgetting its place in the general exchange mechanism of India.

(2) Normally, the only way of keeping the Home Treasury balances at a low average level is by maintaining a close correspondence between estimates and actuals: not as regards the Home transactions only or primarily, but as regards all transactions, revenue or capital, Home or Indian, which react on the aggregate Government balances. Sound estimating is of course always an end in itself and to this extent, but only consequentially, low Home balances are desirable.

(3) Exceptionally, there may be reasons as to which a central bank should be a safe judge, and a commercial bank, however public spirited, hardly an impartial judge, for special steps to keep Indian balances temporarily at a relatively high level with the consequence of keeping Home balances relatively low.

(4) When surplus balances accrue at home as the result of discrepancy between estimates and actuals it is possible to look on such surplus funds as provision for the Administration's prospective requirements (see last sentence of first footnote to para. 4). But this fact is not the cause of the surplus funds being sent to London. Nor is such antecedent provision called for on its own merits.*

(5) Such surplusage is, in essence, a temporary balancing reserve (akin in function to the Home branch of the paper currency reserve) set up by one group of normal exchange transactions and liable to be used up (or in other words retransferred to India) by another (e.g. Reverse bills; c.f. also the transfers and retransfers described in the Paper Currency Report for 1924–5, page 15).

12. Applying these results to the question put to me, I would summarise as follows the points which are essential to an adequate answer:—

(A) *What sums are needed by the Home Treasury?*—The Home expenditure of the year, including such large and uncertain factors, outside the Secretary of State's control, as the Railway capital expenditure.

(B) *What sums are available for remittance to the Home Treasury?*—The whole surplus of the Treasury balances in India, including not only that sum (an estimate

* Indeed, any plea that this aim should be deliberately pursued seems opposed to Budget principles. I am of course assuming that in the conditions of the future exchange will be fully maintainable at the chosen rate. This assumption could be less safely made in the pre-war period which, taken as a whole, was a tentative period. And in recent years there has of course been no normal rate.

of A above) which is included in the Budget for remittance, but any further surplus which accrues through under-estimation of receipts of any kind or over-estimation of expenditure of any kind.

(C) *What sums will, in fact, be remitted to the Home Treasury?*—The whole amount (up to the limit of B) of the quite incalculable trade demand for remittance to India.

While, therefore, it is clear that no inconvenience would be caused to the Secretary of State if the provision of funds was kept in exact accord with the maturing of obligations, it does not follow, as the question seems to assume, that the recurrence of large Home balances could thereby be obviated. This can only be achieved by exact estimating—Home *and* Indian—and this exactitude, on the Ways and Means side particularly, may often be not even roughly obtainable.

Finally, if the *total* Home remittance (paper currency as well as Treasury) is in question, no estimate worth the name is possible and no limit can be set.

APPENDIX 78.

Statement of evidence submitted by Mr. A. Bowie, General Manager of the Allahabad Bank, Ltd. (affiliated to the P. & O. Banking Corporation, Ltd.).

1. I have the honour to submit, as an expression of my views from the standpoint of indigenous banking, (*a*) a note on the question of the control of the note issue and on what principles should control or management be transferred to the Imperial Bank of India, and (*b*) a note on the question of what measures are desirable to secure greater elasticity in meeting seasonal demands for currency. I beg the favour of your placing these notes before the Members of the Royal Commission on Currency.

2. The control and management of the currency should be a function of Government and ought not to be delegated to an institution, however powerful, owned by, and managed primarily for the profit of, a body of private shareholders.

3. The result of the working of the Imperial Bank Act has been to erect a quasi-state bank to a position where it is placed above economic competition and has left the indigenous banks defenceless against the operations of the state bank.

4. The clauses of the Act are framed to give the widest permissive powers to the Bank to engage in general banking business and so that nothing in the Act may be construed as restrictive, it is specifically stated in the Act that nothing shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such account without security to such extent as may be prescribed.

5. Further, no additional measure of security is provided by the terms of the Imperial Bank of India Act, 1920, in regard to the statutory information to be shown in the balance sheet. In fact, the measure of protection to the public in this respect is not equal to that demanded from the banks established under the Indian Companies Act in Form F, viz., to disclose the secured and unsecured advances and, as a guarantee of the independence and impartiality of the control of the bank, to show the sums due by the directors as principals and guarantors and as partners and directors in firms and companies.

6. The privileged position of the Imperial Bank of India hinges on the prestige accruing to them as Government bankers which, in the eyes of the public, secures to them the support of Government in an emergency. This position in itself means an actual monetary advantage, in that, with their credit as Government bankers, the Imperial Bank of India ought always to be able to borrow at lower rates than other banks.

7. One restriction placed by the Act on the Bank's functions is that the Bank cannot engage in foreign exchange banking business so that the exchange banks working in India are relieved from the uneconomic competition of the Bank.

8. There are no obligations under the Act placed on the Bank requiring it to make advances to other banks against Government or other approved securities, so it is within the power of the Bank at any time, arbitrarily, to refuse banking accommodation.

9. The single condition imposed by the Bank Act requires the Bank to open 100 new offices within a stipulated period. As consideration for this undertaking of banking development, formerly carried out by other banks on their own resources, the Bank is given the facility of free transfer of funds and a monopoly as Government bankers of receiving the whole of the Government balances free of interest, military and regimental accounts, trust estates, municipalities, railways, ports, universities, schools, security deposits and various semi-public funds.

10. The use of interest-free funds, free transfer of funds, and the large payments it draws for its services in connection with the management of the Public Debt places the Bank in a position, where it meets with competition for banking business, to quote rates unprofitable to other banks. Indigenous banking development except within the organisation of the Imperial Bank is nullified. There is also the danger of banks being forced to seek profits in a class of business which ought to be outside the sphere of operations of properly managed banks. Both these conditions are conducive to a weak growth of indigenous banking. It is clear that there can be no strength in a nation's banking system which depends for its development on a state-aided institution placed above competition.

11. The strong competition of the Imperial Bank with indigenous banks is generally admitted. In argument it may be stated that through the operations of the Imperial Bank, banking rates and charges have been lowered with a resulting benefit to trade. But if Government wished by conferring special privileges on a selected bank to benefit trade, then in fairness to the established banks these benefits should have been made available to trade through all the banks with which the public had been accustomed to deal.

12. It may further be argued that banking services are given by the Imperial Bank to the state in exchange for the benefits conferred; yet every bank gives similar services to its numerous customers, besides paying interest on customers' balances.

13. To add to the enormously valuable benefits and privilege accruing to the Bank through the operation of the Imperial Bank Act the right of note issue, with the revenue from the securities protecting the fiduciary issue, or with the revenue from a direct payment, estimated without competitive tender, for control and management, would have the effect of erecting an unassailable banking monopoly in India.

14. The control of the note issue in the hands of a state bank, competing with other banks for general public patronage and banking business, would place banks in a position of dependence to the state bank and there would be the risk of bankers' needs in the matter of the issue and exchange of currency notes being made, particularly at the up-country offices of the Imperial Bank, secondary to the needs of the Imperial Bank's own non-banking customers.

15. No definite benefit would accrue to the community through the transfer of the control and management of the currency to the Imperial Bank of India. So long as proper reserves are laid down by statute to ensure convertibility and to ensure that the rupee will have a common monetary basis with the leading currencies of the world the question of a managed currency will not arise. There would be a distinct loss to the banking community if Government ceased to control the currency. The definite guarantee of impartiality, which the control and management of the currency by the Government of India provides, would be lost if these functions were transferred to a state-aided bank that is in active competition with other banks for general banking business. If it were decided that the note issue should be handed over to the Imperial Bank, then the status of the Imperial Bank should be analogous to that of the Bank of England, a state bank, which does not compete with other established banks in general banking business.

(a) Measures desirable to secure greater elasticity in meeting seasonal demands for currency and what conditions should be prescribed with regard to the issue of currency against hundis.

(b) Greater elasticity in meeting seasonal demands for currency can be expressed in other words as provision for increasing the amount of loanable capital at the busy seasons of the year.

16. The currency ought to have no concern with the provision of loanable capital. Assuming that an effective gold reserve for the note issue is established the volume of currency will increase and decrease with the gold withdrawals from or deposits in the gold reserve. This will be automatic following the seasonal demand for currency in India. Rupee exchange will move within the limits of the gold points, according

to the demand for rupees. Loanable capital to finance seasonal demands will flow to or from India through the agency of the gold reserve; the attraction of loanable capital to or from India being governed by the comparative profits yielded by the Indian or English bank rates.

17. The Imperial Bank rate should be regulated by the demand for money or, in other words, by the supply of loanable banking funds in India. Artificial measures for controlling the bank rate should not be resorted to. The bank rate ought to be the limiting and regulating agency controlling credit. Easy credit encourages over-trading leading in the end to financial crises. A high bank rate when seasonal demands are urgent is salutary. It keeps speculation within bounds, is a factor in preventing goods being held unduly for a rise in price, increases the velocity of the turnover of banking funds, and attracts local money to the money market. Money is available in India if the price is paid for it, and there is no more powerful agent for bringing hoards into fruitful employment than a good price for money.

18. There ought to be no question of emergency currency until an emergency has arisen, when, if panic conditions exist, the Government can take exceptional measures to suspend the Currency Act within strict limits and conditions.

19. Regarding the question of what conditions should be prescribed for the issue of currency against hundis I beg to state my opinion that the currency should not be asked to function as a re-discount market. It is a dangerous principle to admit that loanable capital can be manufactured by the issue of currency notes against the deposit of security. The supply of loanable capital is a banking function. If the local money market does not suffice to meet seasonal demands then additional supplies of loanable capital must be attracted from money markets outside India.

APPENDIX 79.

Statement of evidence submitted by Mr. M. M. S. Gubbay, C.S.I., C.I.E., General Manager and Director of the P. and O. Banking Corporation, Ltd., London.

This Note is submitted on the assumption that it is permissible to travel beyond the particular points covered by the Supplementary List of Questions, and is intended to concretise the points on which I should wish to tender myself for oral examination in addition to points covered by the Supplementary List.

1. The basic principles on which the plan appears to rest are:—

(1) The responsibility for the holding of exchange, whatever may be the point at which it may be stabilised, should not rest, as hitherto, on the authorities in Simla and London.

(2) Fluctuations of exchange should be left to be corrected automatically by the inflow and outflow of gold.

(3) For this purpose, as also as an internal circulating currency medium, a gold coin should be introduced.

(4) Indian Bank Rate policy will play an important part as a regulator to check or stimulate, as circumstances may require, the movements of gold in and out, and, therefore, the credit and exchange policy of India must be unified and be directed by the Imperial Bank.

2. One of the primary issues which emerge from any consideration of the Indian exchange system is the question of the Government participation in its management.

My view, as an old official of the Finance Department, is that the Government authorities themselves wish to see reduced to a minimum their responsibility and their intervention.

3. A complete change over, however, such as is contemplated in the plan, involves two radical changes in the Indian financial system:—

(1) the reduction of the status of the silver rupee;

(2) the alteration of the character of the present Government currency notes into bank notes payable in gold.

4. I do not consider that the effects of these two measures have had due weight given them in the proposed plan. The stages through which the scheme can be brought into ultimate complete introduction should be considered with reference to the practicability of these two measures. I do not believe that it is possible as yet to contemplate either of these two changes; singly each would have very far-reaching

consequences, and jointly they would result in general confusion and disturbance of the existing machinery.

5. A gold coin in internal circulation and commonly acceptable is an essential preliminary to the proposed reduction of the status of the silver rupee. It will be only when the necessary conditions of general acceptability of such a coin as an internal circulating medium that the stage of demonetising the silver rupee could be safely entered upon.

6. I feel very strongly that the replacement of Government currency notes by a bank note, whether payable in gold or silver, needs to be considered, not merely with reference to its acceptability as such, but also with reference to the different conditions under which a bank note will be available for issue. So long as the note is that of the Government and not of a bank, impartiality can generally be expected from those whose function it is to manage its issue, whether at local points or at the chief commercial centres. Suggestions have already been made of partiality under the system now obtaining at some inland points on occasions. It must be remembered that notes play a most important part in the movement of produce and goods from point to point.

A bank which has at its command the supply of notes available at any particular trading centre is naturally regarded as being likely to offer better service than another bank which does not enjoy this privilege. The utility of other banks to the trading and general community may be impaired, and their sphere of activities seriously curtailed, and it may be that there will be some reaction on the progress which the note-using habit has made among the community as a whole.

7. If the Government responsibility for the convertibility of the note is to be withdrawn, the acceptability of the bank note will need, in my view, to be secured by provisions as to a metallic proportion far higher than that proposed in the plan. The credit of the bank note can hardly rest on a metallic basis smaller than that which past experience has shown to be required in the case of the Government currency note.

8. The admissibility as fiduciary cover for the note issue, whether Government or bank note, of internal trade bills appears to me to be questionable. The primary objective should be to attract gold into the Indian currency, under whatever system it is to be operated, whenever Indian monetary requirements call for an increase in the currency. The rediscounting of internal trade bills by means of an enlargement, even temporary, of the currency will interpose an obstacle to such flow to India. Further, such rediscounting becomes all the more questionable when the trade bills to be offered as cover for the fiduciary issue are bills not rediscounted with the Imperial Bank or with the bank of issue by other banks, but may be bills purchased by the Imperial Bank in its character as a bank engaged in general commercial and joint stock banking.

9. Similarly, the provision as to the admissibility as fiduciary cover for the note issue of sterling bills drawn in India will, if it became operative, also interpose an obstacle to the flow of gold into India.

10. The plan lays upon the Imperial Bank the obligation to keep the Secretary of State supplied with funds to meet the sterling charges of Government.

As the custodian of the Government's balances and as holding bankers' balances the Imperial Bank has responsibilities as well as privileges; the discharge of these functions cannot always be impartially harmonised with its own interests as a bank engaged in joint stock banking, and commercial banking, as a branch bank and as a bank of deposit; and the privileges which it already possesses secures for it a favoured position. The extension of its functions so as to embrace (*a*) the management, as principals, of the note issue, and (*b*) the provision of the sterling requirements of the Indian Government will not only vastly increase its commitments, it will also increase the points at which its interests, as a private institution designed to make the best use of shareholders' capital, come into conflict with its duties as an impartial body conceived for the purpose, and charged with the duty, of regulating the supplies of credit in the general interests, and of stimulating under guidance and wise control the development of banking in India.

It would appear to be essential to define very clearly and rigidly the limitations which should be observed by the bank in the different capacities in which it will be required to function if room is to be made available for other banking enterprise in India. Preferably, these different functions should be differentiated, and their discharge left to be effected, not by one single institution, but by separate institutions or agencies.

APPENDIX 80.

Statement of evidence submitted by Dr. T. E. Gregory, D.Sc. (Econ.) Lond., Professor of Currency and Banking in the University of London.

The rupee should be stabilised and the gold standard adopted.

1. I believe that the time has now arrived when the stabilisation of the rupee can be safely undertaken. At the time of the Babington-Smith Commission, it was not held that the practical abolition of the gold standard in Europe stood in the way of fixing a parity with gold, and the case against a continuance of a fluctuating exchange is much greater now, when the greater part of the world has again stabilised the external value of the various currencies employed.

The time has also arrived, in my opinion, when India should adopt the gold standard, and not merely the gold exchange standard. I base my opinion upon the well-known fact that Indian public opinion has long demanded such a step, upon the consideration further that the failure of the experiment of 1920 has discredited the currency policy of the Indian Government; lastly, upon the feeling that the wider the area in which gold serves as a standard and the principal coin, the less the danger of a further fall in the value of the metal.

The rupee should be stabilised at the rate of 1s. 6d.

2. I attach no importance to the suggestion that the transition to the gold standard would involve a smaller demand for gold if a rate lower than the existing rate were adopted as the basis. This view seems founded on the erroneous idea that the total volume of the currency in India would be the same whether the parity were 1*s*. 6*d*. or 1*s*. 4*d*., or even a lower figure. If a rate lower than 1*s*. 6*d*. were chosen, the volume of money in India would have to be increased to prevent the sterling value of rupees from rising, and consequently money incomes would rise also. It makes no difference whether an individual buys 113 grains of gold with 13 rupees or with 15, if he is in the second case given a larger number of rupees to buy the gold with. It is true that a reduction in the gold or sterling value of the rupee would reduce the buying power of those classes of the population whose incomes are fixed in terms of money, by law or by custom, but I cannot admit that this would make much difference to the total demand for gold, or that, even if it did, it is a policy which ought to be advocated. I do not think that the serious social consequences which accompany a fall in the value of money are outweighed by the considerations that the adoption of an 1*s*. 6*d*. rupee gives an awkward relation to the £ sterling, or that it may have some slight effect in stimulating imports into India, or that on paper it gives a higher sterling yield to the holder of rupee securities. So long as gold only buys about ten-seventeenths of what it did before the war, the creditor of the Indian Government has very little to be jubilant about. In any case, against his gain must also be set the gain to India arising from the smaller rupee burden of the Home charges.

The question of gold output and prices.

3. I have no special technical knowledge of the economics of the gold-mining industry, which would enable me to give a categorical answer on the subject of the future output of gold. But the general economic aspects of the matter are clear enough. There is no reason to suppose that gold-mining differs from other mining, so that it is likely that the progress of mining technique will operate in the future, as it has in the past, to make the marginal mine one that in the past it would not have paid to work at all. This kind of influence on the output of gold one has every reason to expect, even if no new areas are opened up. Of course, if world prices were to fall, it would pay to operate mines even poorer than the present marginal ones. Thus, though it may be true, as Mr. Joseph Kitchin has argued,* that the tendency for gold output is to fall, yet the rate of decline may be slower than was anticipated. In any case, the fall in output which he predicted in 1924 has not yet begun to manifest itself, for his estimate of gold output for 1925 is higher than his estimate for 1924, viz. £81 millions against £79 millions.† Even if we take his original figures and argue that world production will fall in the next decade at the rate suggested by him, world-output would still be £74½ millions in 1930, and, on the assumption of a continuous fall at the same rate, £67 millions in 1940. If we

* Harvard Review of Economic Statistics, April 1924. "Gold Production: a Survey and Forecast."
† Figures from Messrs. Montagu's "Annual Bullion Letter."

assume that the Indian private demand will continue at the average pre-war rate (1908–13), i.e. 29 crores, say, at 1*s.* 6*d.* per rupee, £22 millions, and if we further assume that the transition to the gold standard were to start in 1930 and were to be completed in 1940, then India would absorb about three-sevenths of the current supply in the first year, and rather less than 50 per cent. in the last year.

The world's industrial consumption of gold is stated in the 1923 Report of the Director of the U.S.A. Mint as 87 million dollars in 1921 and 101 million dollars in 1922. If we take £20 millions as the average figure, then the Indian private demand plus Indian currency demand plus world industrial consumption would absorb $\frac{52}{75}$ and $\frac{52}{67}$ of the total output at the beginning and end of the transition period; the surplus available for the currency demands of other countries being then in absolute amounts about £23 millions and £15 millions respectively.

4. Any prediction as to how the future of prices will be affected by demands for gold of this order of magnitude in relation to the supply of gold as estimated is impossible, so long as we know nothing of the future reserves of gold which nations will think it worth while to keep. In this respect the war has brought about a currency revolution. Lehfeldt* and Cassel† have shown that in the 19th century the secular course of prices varied according as the actual output of gold rose or fell below the "required" output, i.e. the amount which would just have kept prices steady, world productivity being what it was. Both these writers agree that in pre-war years the actual output needed to be between 2 per cent. and 3 per cent. of the actual stock of gold in existence in order to keep prices steady. But currency conditions to-day have completely altered. Not only is little gold in circulation, but it is now recognised that the central banks of the world kept gold reserves much larger than they needed to keep in order to meet all demands likely to be made on them. The result was, of course, to keep up the value of gold.

The tendency in the post-war world is to keep smaller reserves, partly because central banks want as large a portion of their assets as possible to be earning assets, partly because the war showed that gold reserves were not the sinews of war that they had been supposed to be before the war broke out. Consequently a falling off in gold output does not necessarily have any direct effect on price levels at all in these days; banks reduce their reserve ratios a little, and that is all. Some banks have reserve ratios which are absurdly large, even now, and it is quite clear that it would pay, in the strictly economic sense, for the United States to exchange 500 millions of superfluous gold in the vaults of the Federal Reserve System for an interest-bearing debt contracted by India. Taking a world view, I cannot regard a demand for an extra £100 millions of gold on the part of India as likely to imperil the general stability of world credit in any way.

The position of the London money market.

5. Though it is, in my opinion, clear that the present and anticipated yearly output of gold, and the present monetary gold stock of the world, are quite large enough to support an additional demand of the kind suggested in the "Proposed Scheme," I feel also that the proposal to absorb as much as £50 millions within one year of the commencement of the plan would tend to create alarm in the London money market, and would to that extent cause opposition to the whole plan to be intensified. The gold in the Bank reserve can be taken at £23½ millions, the reserve ratio at 20 per cent. as compared with the pre-war 45 to 50 per cent. Under these circumstances, it can be argued that the inauguration of the scheme would involve grave risk of higher bank rates here, in order that the gold taken for India from bank reserves here would be attracted here again, either from South Africa, America, or other areas at present on a gold standard. The question whether such higher bank rates here would inaugurate a series of rising rates in the rest of the world depends on the extent to which other countries regard themselves as possessing surplus stocks of gold or not; if they were content to allow gold to move to London to replace that taken from thence, the influence of a higher bank rate would be directly confined to London, though it might have indirect effects elsewhere.

Under the actual circumstances of the London money market, a drain of gold to India would probably not have the effect, so much of raising rates over time, as of postponing their reduction. The position of London is complicated by the

* Lehfeldt. *Gold Prices and the Witwatersrand*, Chapter II. See *op. cit.* p. 37 for further references.
† Cassel. *Theory of Social Economy*, Vol. II., Sec. 53 et seq.

circumstance that the process of adjustment to the restored gold standard is still going on, and the market is thus peculiarly sensitive to losses of gold. The tendency of rates to fall when our own adjustment had been completed might thus be interfered with; but to the extent that the bank authorities can be induced to consider a lower reserve as not necessarily imperilling the position of London as a financial centre, an outflow of gold to India would not induce permanently higher rates. Whilst I regard it as very important that any acquisition of gold should be carried out in such a way as not to bring undue pressure to bear on the London market, both on economic and psychological grounds, I think it desirable to stress also the two following points in order to avoid misunderstanding:—

(a) A country cannot "lose" its gold against its own will. Gold can always be got at a price: the price to be paid is a price-level which will attract gold.

(b) The acquisition of gold in pursuance of a pre-determined plan is, in its reaction on the situation in the country from which the gold is drained, to be judged differently from losses of gold in that country due to lack of equilibrium of price-levels. For the latter indicates a disease which is peculiar to a particular area, which, unless cured, means continuous monetary derangements. The policy which must follow from the former situation depends on whether or not stocks, in the country from which gold is taken, are to be regarded as redundant or inadequate.

£100 *millions of gold not necessary.*

6. I do not, however, regard the amount of gold which will be required by India, in order to pass to the gold standard, as being necessarily anything like as large as the figure stated in the "Proposed Scheme." This opinion I reach on the following grounds:—

(a) The scheme is built up on the old-fashioned assumption that the correct way of inaugurating a gold standard is to acquire large supplies of gold and to exchange them for silver, which will then be sold at a loss, the extent of which it is impossible to estimate beforehand. This method of introducing the gold standard quite rightly foresees that it is impossible to maintain in circulation both the existing volumes of non-gold currency and the amount of new gold it is desired to introduce; and hence proposes to deal with the matter by reducing the legal tender quality of the silver coin. But the value of the silver rupee depends not on this, but on its quantity. I believe this method to be wrong in principle and likely to bring about the very evils it is desired to avoid.

(b) The introduction of the gold standard does not logically or practically involve the immediate circulation of large quantities of gold. What it does involve is the extension of the use of gold *in the future*, i.e. the opening of the Mints to gold, the grant of full legal tender power to gold and the maintenance at par with gold [though not the *immediate* right of conversion into gold*] of all other forms of currency. The correct device for passing over to the gold standard is thus *the limitation of the quantity of other forms of currency*. The normal growth of trade and population can then be relied upon to fill the gap caused by the non-increase in the other forms of currency, other than gold.

Provided that the quantity of silver is limited, there is no reason to limit the legal tender quality of the silver rupee, and every reason why it should not be limited.

(i) The knowledge that such silver as is actually hoarded will be deprived of its legal tender quality is surely the best means possible of causing a panic and of increasing the immediate supplies of gold which may have to be provided. This danger of panic demands is certainly increased by the suggestion in para. 2E (ii), that the putting into circulation of a gold coin in exchange for notes and rupees should be discretionary in the interim stage of the scheme. Whether or not the scheme is introduced by stages, on the lines suggested in the "Proposed Scheme" or on some other basis, both Government and the people of India should know in advance precisely what it is intended to do at any particular stage.

(ii) Assuming the scheme to be adopted, there seems considerable danger that the time required to carry it out will be increased owing to the pressure of interested parties, who will protest against the losses to them resulting from the fall in the price of silver. The experiences of Germany after the currency reforms of 1871–3 show how the fear of loss from the sale of large stocks of silver on the one hand, and the alarms of the silver party on the other hand, produce the very situation it is hoped

* That is, the date at which the Mints are opened to gold need not coincide with the date at which silver is made convertible into gold on demand.

to avoid: a panicky silver market and a postponement of the final stages of the reform If the Government is to get rid of silver, let it do so as soon as possible and not disorganise the market for 10 years. I attach no very great importance to the argument that the annual sales would amount only to the "average net imports of silver into India in recent years." The net demand for silver in India will decline, mainly because if silver is regarded as likely to depreciate in value no one will want to hold large stocks of it. (I can see no virtue in the proposed import duty: the world price is bound to fall if large sales of silver take place, and though the Indian price may be somewhat above the world price, it too will be lower than it is now. If it is much above the world price, the duty will certainly encourage smuggling. The political consequences of the policy also seem to be undesirable.)

(iii) A further point may be alluded to here. India is a relatively poor country, in which the mass of ordinary transactions is likely to be for small amounts. On the other hand, technical conditions make the issue of small gold coins undesirable. The present rupee stock, including those in the currency reserve is only about 12 *per capita.* I suggest that this is not an amount which, provided that the total is not increased during the transition period, could possibly imperil the transition to the gold standard.

(iv) I notice a suggestion in para. 4 (i) in the Proposed Scheme which should be questioned. I refer to the sentence implying that during stage I "a statutory obligation should also be imposed on Government to give, in exchange for gold bullion, notes or silver at a price equivalent to the par of exchange, &c." There is no valid objection to be made if this sentence only implies that silver or notes will be issued against tender of gold within the limits of the existing issue; if it implies that the volume of notes or rupees is to be increased, it will delay and not assist the progress of the reform. For, so long as the rupee or the notes are not convertible at will, their value does not depend upon the nature of the security behind them, but upon the total quantity in circulation. To the extent that there are more rupees or rupee notes, to that extent, other things equal, will their value fall. As the object of the reform is to leave a gap in the circulation which can be filled by gold, silver or notes should only be given for gold within the limits of the actual existing circulation, so long as complete convertibility has not been introduced.

7. I am of opinion, therefore, that there should be no interference with the legal tender quality of the rupee. If the rupee remains unlimited legal tender, a reduction in the number in circulation is not necessary on any grounds, no heavy pressure on the world's money markets will then be felt and no danger to the progress of the reform will arise from the possible ill-effects of the sale of *very* large amounts of silver. The reduction in the number of rupees, in order to widen the area to be occupied by gold, should be confined to the sale of the rupees in the paper currency reserve. As, however, the smallest gold coin cannot be less than Rs. 10, and as it would probably be better to make the smallest gold coin twice as large as this, Government will always require some silver for the conversion on demand of the notes under Rs. 10. If no notes under Rs. 10 are issued, the place of silver in the circulation will be increased. The maximum sale of silver would thus be 90 crores, and it might in practice be a good deal less (see para. 9 below).

8. I come now to the transition to the gold standard. I recommend—

(*a*) That the Mints be immediately opened to the coinage of full-weight gold coins, in unlimited quantities. The minimum denomination to be Rs. 20 until the inauguration of the full gold standard, which I recommend should not be delayed for a period of more than five years from the date that the Mints are thrown open to the coinage of gold. The size of the smallest gold coin can then be reduced to Rs. 10, if it is considered desirable. The gold coins to be unlimited legal tender and a seignorage charge to cover cost of coinage to be imposed.

(*b*) That no further coinage of rupees or increase in the note-issue beyond the present limits be permitted in the interim period. If gold be tendered for notes, the total of the notes to remain unaltered, and a corresponding portion of the investments in the paper currency reserve to be cancelled.

(*c*) That of the 90 crores of rupees in the paper currency reserve such portion to be sold as is not required to take the place of notes under Rs. 10, the retirement of which I recommend, and a further amount which may be required to encash such Rs. 10 or other notes as may be presented for redemption before the expiration of the first five years of the scheme. On the inauguration of the convertibility of notes into gold, whilst some silver will probably still have to be held, the silver portion of the paper currency reserve to be reduced still further.

9. Estimating the amount of notes under Rs. 10 denomination as in the neighbourhood of 20 crores, this scheme involves a maximum sale of 70 crores, or, say, 50 crores within the next five years. The minimum amount of gold to be acquired will amount to 27 crores or £20½ millions sterling, or about £4 to £5 millions per annum. The sale of 50 crores of rupees will involve some 172 million ounces which, at the price estimated in the "Proposed Scheme," would bring in about £17 millions. The resulting deficiency should be made good either by a loan or by appropriations out of the gold standard reserve.

10. The Committee may care to consider the case for the immediate commencement of an Imperial Bank note issue. This could be done by transferring the gold in the paper currency reserve to the Imperial Bank, which would issue gold certificates therefor. Gold when presented for the first five years would be bought not with rupee notes but with gold certificates, a given increase in the Bank's issue of these to be accompanied by a proportionate reduction in the fiduciary note issue of the Paper Currency Department. Gold acquired by Government against the sale of silver similarly to be transferred to the Bank and the gold certificates to be held in the paper currency reserve instead of the gold itself. In this way, at the end of five years, the Imperial Bank would hold a minimum amount of gold equal to 57 crores against a total of 57 crores of gold certificates in the paper currency reserve. Assuming no gold to have been sold to the Bank for gold certificates except by Government, the Government note issue would still remain at 190 crores. If 10 crores of gold had been sold to the Bank the Paper Currency issue would stand at 180 crores, the Bank's gold certificates at 67 crores, of which 10 crores would be in circulation and 57 crores would be held by Government. This suggestion does not in any way alter the economics of the situation; it has the sentimental value that it would afford some proof that the transition from a Government to a Bank paper currency was under way. A special department of the Imperial Bank would have to be created, and the certificates would have to be at all times fully backed by the gold which they represented. Since gold coins would already be in circulation there is no reason why these certificates should not be convertible into gold on demand.

APPENDIX 81.

Statement of evidence submitted by Dr. Edwin Cannan, M.A., LL.D., Professor of Political Economy in the University of London.

1. *The interest of India.*

If (*a*) I felt complete confidence that the principles of the gold-exchange standard would always be properly carried out, and if (*b*) I disregarded the view of the question which is taken, rightly or wrongly, in India, I should see, so far as India's interest is concerned, very little difference between a gold-exchange standard and a gold-currency standard.

But neither of these conditions are fulfilled.

(*a*) Considering the history of the past and the probabilities of the future, I feel no confidence that the management of a gold-exchange standard will always be in the hands of persons willing and able to make it a success. Therefore, if I were myself an Indian, I should prefer the simpler gold-currency standard as being less likely to be broken down by bad management. I should not regard the fact that the gold-exchange standard, properly worked, is a little cheaper, as sufficient compensation for the extra risk involved in it.

(*b*) Opinion in India cannot be disregarded. So far as I can judge, the opinion of those who take any interest in the subject in India is overwhelmingly in favour of a gold-currency standard. Probably this is very largely a matter of national sentiment, the feeling being that Western nations adopted gold currencies in their own interests, and that India is prevented from following their example by the influence of London financial circles upon the British Government. To argue that India is too poor and backward to make good use of gold is very naturally regarded as adding insult to injury. It is extremely desirable in the general interests of India that a grievance of this kind should be removed at the earliest possible date, even if its removal costs an appreciable amount of money.

2. *The interest of Great Britain and the West generally.*

The interest of Great Britain and the West generally is that India should be prosperous and well satisfied, and to secure this Great Britain might well be

contented to incur some inconvenience, especially when the inconvenience would not be peculiar to herself, but would be shared by most of the Western countries. But it seems more likely that the gold-standard countries would be benefited than that they would be inconvenienced by the introduction of a gold-currency system in India.

The production of gold is likely to remain high for a considerable period yet. The European and American demand for additional gold for currency is not likely to be as great as before the war, since (*a*) people who have once become accustomed to paper currency do not wish to return to gold coins (e.g. California has not returned to the habit of using gold coins), and (*b*) the superstition that immense cellarfuls of eternally idle gold are necessary to "back" or "support" the value of paper currencies is, like other superstitions, losing strength. Consequently, if the East takes no more gold than before, there is great danger of a further depreciation of gold, and, which of course is the same thing, a further rise of prices in the gold-standard countries. It is true that rise of prices makes things temporarily easy for the business man who lives by profits, but all experience goes to show that it tends towards general unrest and the spread of revolutionary and destructive ideas, that it ruins government finance, and should be avoided like poison by every wise statesman.

Additional demand from the East, therefore, if on a moderate scale, is not to be feared, but to be welcomed by the gold-standard countries of the West.

3. *Smallness of the amount of gold required for a gold-currency standard.*

I see no ground for supposing that if complete liberty of exchanging all silver rupees and currency notes into gold coins were given at once all over India, there would be an enormous demand for gold coins, unless some ill-advised action had created distrust in the rupees and notes.

Small cash is a necessary of civilised life. The principal factor in determining how much per head of population will be required in the smaller coins is the magnitude of the coin or note immediately above them. In other words, the amount per head of silver coins in any country, where gold or notes are used for large payments, will be found to depend principally on the magnitude of the smallest gold coin or note. The silver coins in circulation in the United States amount to about $2\frac{3}{4}$ dollars per head; in England they are about double that amount, and the explanation obviously is to be found in the fact that the lowest note in England, ten shillings, is much bigger than the lowest note in the United States, one dollar.

The poorer the people, the larger the proportion of their total cash will be in coins of small value.

Taking these facts and everything else known to me into consideration, I find it difficult to believe that no more than Rs. 5 per head would be required for active circulation, even if the smallest gold coin were the half-sovereign and the existing amount of 5-rupee notes remained in circulation. If the smallest gold coin were a 10-rupee piece, which is quite small enough for a gold coin, the amount required would be still larger.

The impression that in case of the introduction of gold currency there would be a rush to convert silver coins into gold ones seems to be founded on a belief that a large proportion of the silver coin outstanding consists of hoards which have been saved and are not in very active circulation, and, further, that these hoards would to a large extent be brought out for conversion into gold. But, granting their existence, why should these hoards be converted? To bring them out would be inconvenient to the owners owing to the risk of publicity and robbery, and nothing would be gained by it except some saving of space, which is really quite negligible in the case of hoards already made. No doubt in future those hoards, if any, which would under existing circumstances be made in silver coin, would tend to be made in gold coin, but there seems very little reason to expect any appreciable conversion of existing hoards—provided, of course, as I stipulated at the beginning of this section, nothing were done to create distrust in the silver coins.

4. *Silver rupees should continue to be unlimited legal tender.*

Few things are more likely to create distrust in the silver coins and consequently lead to a wild rush for gold than an announcement that it is intended to enact that after a certain date they shall cease to be unlimited legal tender. An Englishman knows by experience that the limitation is of no practical importance, and has no fear, when he happens to have collected a hundred or even a thousand shillings, that those coins will not buy him as much as five pounds and fifty pounds in notes or sovereigns. But to an old Indian villager the news that he has got more silver rupees than his creditor need accept is likely to be most alarming. Prudence will suggest to him that he should at once take advantage of any possibility of converting his

silver into more reliable money. The proposal to limit the legal tenderability of silver rupees is most dangerous and should not be mentioned even as a remote possibility.

In limiting the legal tenderability of the silver rupee India would only slavishly copy a completely unessential and unimportant feature in the English system. Adam Smith suggested a limit for the English silver long before the true principle of token currency had been discovered, and he had nothing to say for his proposal except that it would prevent bankers on whom there was a run from endeavouring to gain time by paying in sixpences, and thus, he thought, induce them to be more careful to keep reserves adequate to meet a run. In 1816 his proposal was adopted, and since then the English silver currency has given little trouble, but this has not been in the least due to the legal tender limit of forty shillings. It is due to the fact that the executive Government, apparently by accident rather than by design, never carried out the intention of the Act of 1816, which was to establish free coinage of silver, subject to a seignorage.* The Mint was kept closed against coinage of silver for anyone except the Government itself, and the Government voluntarily limited the amount issued to what would circulate comfortably at par. Not understanding this, writers on currency and authors of economic text-books used to say that the value of the silver coins was maintained by the limitation of their legal tenderability—as if a disability could increase the value of anything! When this extraordinary doctrine was challenged, the only defence which could be thought of was to allege that the limitation prevented the silver currency being much increased (and therefore depreciated) by the operations of false coiners—as if there were the least probability of false coiners trying to pass nine bad half-crowns or forty-one shillings in a single payment! Mr. Ambedkar, in a book which in some respects is valuable ("Problem of the Rupee," p. 290) tries to revive the doctrine by suggesting that the limitation of legal tender prevents the Government itself from issuing too much token currency. But this is not true, since in transactions between the post office and its customers, and in paying dockyard and other weekly wages, the Government can easily pay out far more silver coins than it receives, and that without compelling anyone to take more than 40*s*. at a time. As a matter of fact, when Goschen was Chancellor of the Exchequer and wanted "to do something for silver," the Government did actually issue too much in that way, and was only stopped by the remonstrances of the banks, which objected to having their vaults crammed with silver coin which their customers had no need for.

It must not be forgotten, too, that the wildest advocate of a limitation of legal tender has never gone so far as to claim that it brings about a reduction of the silver currency when that is required in order to meet a diminution of demand. In a steady progressive state of things such a diminution is not likely to occur, and none seems to have been observed in Great Britain after 1816 till recently. Then it was found that the silver currency required a considerable reduction from the peak which it had reached during the war or the armistice period, and the Government had to withdraw no less than £7,000,000 from circulation and place it in reserve.

There are, of course, plenty of examples of silver currencies with unlimited legal tender power existing in gold-currency standard countries. The thalers in Germany after 1870 are an historical instance; the silver dollar in the United States is still, I think, unlimited legal tender.

5. *Silver rupees should, like notes, be convertible into gold coin.*

It is true that in Great Britain the Executive has maintained the value of the silver currency without being compelled to do so by Statute, and that in the United States the Executive has at some periods maintained it while the Legislature was doing its best to destroy the gold standard, but it seems desirable as a rule that the obligation to keep up the value of the silver by not issuing too much and by withdrawals when by any accident the amount has become excessive, should be definitely imposed upon Executive Governments. The best way to impose the obligation is by requiring the Government to convert the silver into gold coin on demand, as was done in the German monetary reorganisation of 1870.

I see no reason for supposing that India should be an exception from the rule.

6. *Cautious and gradual but rapid introduction of gold-currency standard.*

I submit the following as the steps by which the transition to a gold-currency standard could be made in India without any large risk at any point and at the same time with considerable rapidity, assuming, of course, that difficulty is not introduced by an attempt to combine the reform with a departure from the already established actual exchange market value in gold of the rupee:—

* The provision for free coinage of silver was not struck out of the law till the Coinage Act of 1870. If it had remained till the time of the bimetallic controversy, doubtless much more would have been heard of it.

(A) At once open the Mint to the free coinage of gold; the Mint to be bound to give (after a reasonable interval for time in manufacturing the coin) as much gold in coin as it received in bullion less a small charge for cost of manufacture.

(B) At the same time declare the new coins and equivalent old ones, if any, to be legal tender (unlimited) as rupees at the ratio fixed (e.g. if the 1*s.* 6*d.* exchange is the basis, sovereigns would be legal tender for 13⅓ rupees and a new 20-rupee coin would contain as much gold as a sovereign and a half).

(C) At the same time suspend all additional issues of silver coin, and stop all additional issues of notes redeemable in silver.

(D) Then make the notes convertible into gold coin at the option of the holder, but proceed by instalments, taking first the notes of largest denomination, and proceeding downwards, class by class, very rapidly if no demand appears at each stage, till all the notes are convertible into gold.

(E) Then apply the same method to the silver rupees, taking them in instalments, beginning with those of most recent date.

There seems every reason to believe that if this method were adopted without much flourish of trumpets, complete convertibility of silver coins and notes into gold coin could be introduced in the course of a single year without causing any appreciable demand for gold. The overwhelming majority of the people would not become aware that any change was going on, and those who knew about it would have no reason for taking any action. The maximum possible additional demand caused by each successive instalment would be exactly calculable before the instalment was taken in, the experience with the earlier instalments being available.

But though so unobtrusive and safe, the method would accomplish all that is required, and that very quickly, since India would be on a gold-currency standard from the moment when the 1,000-rupee notes gave their holders power to draw meltable and exportable gold.

Some time after the process described above was complete, increase of population might require the suspension of additional coinage of silver to be terminated. But to prevent any temptation to make a profit by over-issue, it might be well to provide that any profits obtained by additional issue should be realised in gold, and held in reserve to meet the possibility of a backward fluctuation necessitating a redemption of silver coin.

7. *Cost of the reform: magnitude of reserves, and their use.*

It may be asked, "If (as is argued above) little or none of the existing silver and note currency will be converted into gold coins, how will India have a gold currency?"

The answer is that she will have it in the same sense as the United States has it. Two years ago I travelled at my own expense in that country from Detroit to Los Angeles, and then to Washington and New York, without ever touching or seeing a gold coin, but nobody doubts that the United States is a gold-currency standard country. The fact that nobody there cares to carry about 5-dollar and 10-dollar gold coins does not prevent their being current coin which will satisfy any creditor's claim for dollars.

Probably, indeed, private persons in India would soon be holding more gold coins than private persons in the United States. At present most hoarding is said to be in the form of uncoined gold, and it would certainly appear likely that gold coins each of which was a definite number of rupees, would be preferred to bullion wherever no question of ornament or ostentation arises.

Moreover, the reserve against notes and (if any) against silver coins would be held entirely in gold. It is in the cost of the exchange into gold of the silver at present held that we are to look for the cost of the reform. If the reserve is to be kept up to its present nominal magnitude and the silver rupees in it can only be sold in the world bullion market for 9*d.* each (instead of at the rupee value of 1*s.* 6*d.*), this cost will amount to about £33 millions.

Whether this sum could safely be reduced by some cutting down of the proportion of the reserve, I do not profess to know. It must depend largely on Indian conditions with which I am not familiar. But I do protest strongly against any provision that the reserve shall not be allowed to fall below some stated ratio. Such a provision simply sterilises a quantity of gold, making it as useless as if it were still at the bottom of the mine from which it was extracted. A reserve should be usable down to the last penny. To say that in an emergency the law can be broken or suspended is no defence, since violent disturbance is caused by the agitation which ensues when the absolute limit is approached and it is still uncertain whether the law will be maintained in force or not.

APPENDIX 82.

Statement of evidence submitted by Mr. Joseph Kitchin, Manager and Director of the Union Corporation, Limited, London.

I.—GOLD.

THE RELATION BETWEEN THE WORLD'S DEMAND FOR GOLD AND ITS SUPPLY.

1. Table VII. gives the detail of the world's production from the record of 1915. It covers a period of 11 years during which the world has produced £868,500,000 of gold, of which £407,000,000, or 47 per cent., was contributed by the Transvaal. It is worth noting that of the £4,080,000,000, which, according to the records, has been produced since 1493, £2,025,000,000, or practically one-half, has been produced in the first quarter of the present century, as compared with £1,568,000,000 for the whole of the nineteenth century. In 1848-1875, Edward Suess has calculated, 88 per cent. of the output was derived from alluvial, while to-day its quota has fallen to 8 per cent., and banket—practically confined to the Rand—yields 50 per cent.

2. In reading the table it must be remembered that the Rand white miners' strike of January-March, 1922, reduced the output of that year by about £6,000,000. and so in a sense the year of lowest production since the record of 1915 was 1921, and not that which followed it. One can therefore say that, partly as a result of exhaustion of mines, but also as a result of the increased cost of working resulting from the Great War, the yearly production fell from £96,400,000 to £68,000,000, or 70½ per cent. of 1915, while it has since increased annually until it has reached £80,000,000, or 83 per cent. of 1915. In 1924—and again in 1925, by a narrow margin—the Transvaal improved upon its previous best, and Canada also achieved a record. Apart from these two, and probably Russia, the principal goldfields of the world were either stationary or declining, and there is distinct indication that, although the world's recovery has perhaps not yet spent itself, any further advance, if it takes place at all, will probably be on a more moderate scale than in late years.

3. The gold output for 1925-29 is assumed to vary little from the £80,000,000 of last year, and to be between £75,000,000 and £80,000,000 in 1930. Of this amount the Transvaal is credited with £35,000,000, and the rest of the world with £40,000,000 to £45,000,000. By the year mentioned Canada may reach £12,000,000 and Russia £5,000,000, while £9,000,000 is taken for the United States. For the five years to 1929 the world's production may be estimated at £395,000,000, of which 1925 has already contributed £80,000,000. There is at present no reason to assume any higher figure for the further period to 1935, when indeed it is expected to average less, and to total £360,000,000.

4. Table VII. also shows gold consumption annually for 1915-1925. The first four side-headings give the demand for gold for other than monetary purposes, and the difference as compared with the output of the year is the amount assumed to be added to the stock of gold money in the world, excluding India, China, and Egypt, which are regarded as hoarding countries, except so far as they may disgorge gold. The data for these three countries are the net gold imports (or net exports where the minus sign is employed) corrected to the normal or mint price of gold, plus the gold production of the first two. The figures for industrial arts apply to new gold only, and are based on the incomplete returns to the Bureau of the United States Mint with the writer's estimates for the gaps.

5. India's demand has varied in extraordinary degree. For some years that country was prevented by administrative action from absorbing the metal, and the high figures of recent years are doubtless due to its making up for lost time and also to over-stocking. In 1924-25 its quota reached a record figure, and 1925-26 will show a sensible reduction, though it will still be high. It is assumed at £27,000,000, including its own production. In the table India's fiscal year to 31st March is taken because it is better to base the figures on the annual trade returns and also because there is a lag between output and import owing to gold taking one to two months in its journey from the place of birth to the place of virtual burial. If the calendar year were taken the figures would differ very widely

from those given, though they would naturally show the same average over a sufficiently lengthy period of time. The alternative figures are £200,000 (net exports) for 1919, £32,700,000 (net imports) for 1920, £10,300,000 (net exports) in 1921, and £17,500,000, £24,900,000, £29,800,000, and £43,200,000 (all net imports) for the succeeding four years to 1925. On this view of the matter India took more instead of less gold in 1925 as compared with 1924, but there is at present a distinct falling off, which the table better reflects.

6. The balance available for money was exceptionally low in 1924 as in 1919, and, on the whole, there has been a distinct falling off, for taking the figures from 1911 to 1925 for three years at a time they have been £133,000,000, £217,000,000, £126,000,000, £122,000,000, and £85,000,000, the second figure being doubtless exceptionally raised by reason of the War.

7. With regard to the demand to be set against new gold production, the first column of Table I. shows that the requirements of the industrial arts up to the War continually expanded, except that they remained practically stationary during the 20 years to 1894, i.e., during the period of falling commodity prices. The amount in 1894 was £10,800,000, and thereafter it increased almost annually until in 1913 it reached £27,300,000. For the 12 years since, owing to the War and its after-effects, it has averaged only £18,000,000, and for the last two years has been about £16,000,000. Judging by the 1913 figure, there is evidently much room for expansion, but for the five years to 1929 the writer takes it at £18,000,000 per annum only, while for five years further perhaps £22,000,000 could be set down. The Indian demand has also varied with the trend of commodity prices, the average of £5,900,000 per annum for the ten years to 1869 being more than halved during the subsequent fall in commodity prices, but thereafter averaging £4.800,000, £6,200,000, £10,000,000, and £19,200,000 for the four quinquennia to 1914-15. The five years to 1919-20, including 2½ years of restriction of imports, showed £10,200,000 per annum and the following five years, with free importation allowed, £20,600,000, the average for the ten years being £15,400,000 per annum. The demand for the five years to 1929-30, with Indian monetary conditions unchanged, might be estimated at £120,000,000, of which the first year will probably have given £27,000,000, leaving £23,000,000 per annum for the last four years of the period. The following five years might require £110,000,000. China's demand is fickle, but less so than in the case of silver. It has taken £11,500,000 in a single year (1919), but at other times disgorges gold. There are indications that China's preference later on will be for gold, which would be in the natural course of events. But this tendency may not be pronounced in the coming 10 years, and its demand may be set down moderately at £2,000,000 per annum for the five years to 1929, and at £3,000,000 for the following five years.

8. The figures suggested are as follows:—

	5 *years to* 1929.	5 *years to* 1934.
	£	£
Industrial Arts (America and Europe)	90,000,000	110,000,000
India	120,000,000	110,000,000
China	10,000,000	15,000,000
Total demand	220,000,000	235,000,000
Assumed gold production	395,000,000	360,000,000
Balance available as money	175,000,000	125,000,000
,, ,, rate per annum ...	35,000,000	25,000,000
Stock of Gold Money at end of period	2,275,000,000	2,400,000,000
,, ,, ,, per head ...	272*d.*	272*d.*

9. Other observers might vary these estimates—and in both directions—and fulfilment may, and must be expected to, differ from them to a more or less important extent. But however they may be varied, they would not materially alter the general result—that the balance available as money in the ten years must be expected to be much below the £54,600,000 and £49,400,000 per annum of the two quinquennia to 1914, while the needs of the world will be much larger than then.

10. In the past there have been fairly well-defined periods—which can naturally be varied by a few years, according to the taste of the observer—in which the stock of gold money per head has alternately risen not at all or but slowly and then

advanced with marked rapidity. Such periods with their figures are as follows, the compound rate of increase applying to the "aggregate" and not the "per head" column:—

—	World's Stock of Gold Money.		Interval.	Average Annual Increase.	Compound rate of increase per annum.	Governing general factors in the period of	Trend of economic factors.
	Aggregate.	Per Head.					
	£	d.		£			
1807 ...	160,000,000	54					
			40 yrs.	1,200,000	0·6%	1810–1851	Stationary or falling.
1847 ...	207,000,000	50					
			21 yrs.	15,400,000	4·6%	1851–1873	Rising.
1868 ...	531,000,000	109					
			23 yrs.	8,500,000	1·4%	1873–1895	Stationary or falling.
1891 ...	733,000,000	122					
			27 yrs.	43,900,000	3·6%	1895–1920	Rising.
1918 ...	1,917,000,000	254					
				?30,200,000	?1·4%	1920– ?	Stationary or falling.
1934 ...	?2,400,000,000	?272					

11. In the two periods 1810-1851 and 1873-1895, following with a lag of a few years the periods of comparatively stationary gold money, London Bankers' Clearings, U.K. foreign trade, U.K. incomes, and U.K. wages were stationary and the Bank Rate fell; while in the two periods 1851-1873 and 1895-1920, when gold money was rapidly increasing in amount, Bankers' Clearings, foreign trade, incomes, and wages advanced swiftly and commodity prices and the interest rate rose markedly. Of course, the Great War and its after-effects exaggerated the rise, but it would, on a more moderate scale than now appears, still have been there, and 1920 would still have been the turning-point. That year, the writer believes from the evidence of the figures, commenced another period of stationary or falling factors the end of which cannot yet be foreseen, which would normally last, with a world working on the gold standard as before the War, until such time as the difference between the output and the demand for gold again permitted of a rapid increase in gold money per capita. This difference can be obtained only in two ways, i.e., by increased supply or lessened demand, or both—by new gold discoveries such as those of California and Australia or of the Rand, or by the industrial arts, India, and China moderating their requirements. All that can be said on that subject at present is that there is no indication at present of new gold discoveries of importance; that the industrial arts as time goes on and with a normal world are likely to exact a greater toll, as the pre-War figures and rate of increase suggest; that India's demand prior to the War was growing rapidly; and that China, which is passing from the copper to the silver stage, should in time with increasing wealth progress towards the gold stage, as India has done before it.

12. These remarks are made largely from the pre-War point of view, and as though the War had changed nothing. Hence the importance of the qualification "with a world working on the gold standard as before the War." The War has for the time being altered the position, so that, although the return to the previous form of gold standard is proceeding, only the United States, Mexico, and the Union of South Africa have a full gold standard, and in the world generally—even in those countries—there is a tendency to centralise gold money as much as possible, so as to make it more effective. How far these efforts will tend to increase the influence of a proportionately reduced amount of gold money remains to be seen.

Increase of Gold Needed to Keep Pace with Economic Development.

13. Professor Gustav Cassel has argued that the gold supply is representative of all money, and that by comparing the increase in that supply between years at which commodity prices were at the same level one can arrive at the rate of increase necessary to meet the general economic development of the world and to keep prices stable. In his work on "The Theory of Social Economy," English edition, 1923, he says: "The quantity of money is not rigorously marked off in relation to the total supply of gold. On the contrary, the gold passes from the non-monetary supply to the monetary and back. . . . Thus the monetary supply of gold at the time affords no objective cause for determining the value of money. To trace the general level of prices to objective causes is, in

fact, only possible when this general level is brought into connection with the total supply of gold." He then points out that bank-notes and bank deposits and the rapidity of circulation of these and of money have to be taken into consideration; that if rapidity of circulation or paying capacity in the period per unit is assumed to be unchanged, there are three variables, i.e., the quantity of money, the circulation of notes and the amount of deposits; that these variables are not entirely independent since " the amount of the notes and deposits is commonly regulated, given a certain quantity of money, by the terms on which banks make advances "; that " the determination of the general level of prices might be traced to two factors, i.e., the terms of bank advances and the quantity of money in circulation "; that "since under a gold standard the amount of money in circulation is . . . related to the total quantity of gold . . . fluctuations of the general level of prices are, if the real exchange is not altered, determined by the total quantity of gold and the terms of the bank advances as well as the effectiveness of the media of payment "; and after showing that the latter are not independent variables he comes to the conclusion that " the general level of prices is directly proportional to the total quantity of gold." (Pages 428-430.)

14. Consequently " when we take the gold standard into consideration (we) cannot stop at the quantity of money, but must go on to the whole quantity of gold in the world." The entire supply he takes at £490,000,000, £1,410,000,000, and £2,550,000,000 at the end of 1850, 1890, and 1910, respectively. He selects Sauerbeck's Commodity Price Index as being the best index available of world conditions, since it is carried back over a very long period and England is a Free Trade country. The level of Sauerbeck's Wholesale Prices of Commodities was the same in 1850, 1886, and 1910, and in the periods 1850-1910, as well as in 1850-1886 and 1886-1910 there was an average annual rise of 2·79 per cent. in the actual gold supply. " The increase of the gold supply during that period as a whole has clearly had no influence on the general level of prices, and the increase merely corresponds with the increase of the gold supply necessitated by the general economic development." (Pages 441-444.) The increase of 2·8 per cent. per annum " we may call a *normal* increase for the period in question and the gold supply at any particular point of time in the period, assuming a normal increase, may be called the *normal gold supply*," which he builds up by starting with £490,000,000 in 1850 and building forwards and backwards on a uniform annual increase of 2·8 per cent. " As far as the changes in the general level of prices in the period 1850-1910 may be generally traced to changes in the gold supply, they may be ascribed entirely to the divergence of the actual gold supply from the normal." (Pages 444 and 445.)

15. He gives on page 448 a rather remarkable diagram showing the approximate agreement between Sauerbeck's price index and the "relative gold supply " (ratio of the effective and the normal gold supply). " The main cause of the secular variations of the general price level lies in the changes of the relative gold supply, and the quantity theory is right to the extent that the general price level, though it is also influenced by other factors, is directly proportional to the relative supply. . . . The general price-level is also subject to annual variations, but these have no connection with the gold supply." (Page 447.) According to Lexis, a total yearly loss of the total supply of 0·2 per cent. must be assumed (as is done in Professor Cassel's figures) for the loss from wear, and so " an annual production of 3 per cent. of the supply at any time is a condition for the maintenance of the general price level unchanged, as far as the gold supply is concerned." (Pages 442 and 451.)

16. These results " refer mainly to the period 1850-1910 and the evolution of the world demand for gold during that period. To apply these results to the future is only possible on the assumption that the demand develops as it has done during the period in question. But we must point out that it is possible that the experiences of the Great War may materially modify our idea of the importance of gold, especially as regards its circulation and the great central reserves, and that in consequence of changes in the demand on this account there may be appreciable changes in the value of gold and the general level of prices." (Page 454.)

17. In distinguishing between secular variations and annual variations (which may also be called fundamental movements, or trend, and trade cycle movements, respectively), he attributes the main cause of secular variations to the changes in gold supplies, the annual variations having no connection with

gold supplies. Professor Cassel's conclusions are shared by many economists and are in essence identical with those indicated by the writer in his Trade Cycles Chart (a recent edition of which was published in the Annual Financial and Commercial Review of "The Times" of February 10, 1925) and in various published articles.

18. Professor Cassel's method of arriving at the annual increase in gold supplies required to meet the general economic development of the world and to keep prices stable is undoubtedly right, but the writer considers that it could be applied to more appropriate figures.

19. The Professor suggests that the quantity of gold money cannot be rigorously marked off from the total supply of gold, for gold passes from the non-monetary to monetary uses and back again. But there is a constant absorption of new gold by industrial arts every year in addition to the old gold re-used, and India's absorption, with only a very few unimportant exceptions (£800,000 in 1878, £2.200,000 in 1892, and £1,800,000 in 1894), is constant, as is plainly shown in Table I. Prices should, accordingly, be affected not by monetary and non-monetary gold together but by gold money only. Professor Cassel might, possibly, have worked out his thesis on the basis of gold money only if he had known of continuous statistics calculated annually and covering the necessary period. Such exist, mainly in unpublished form, in the writer's annual figures of the World's Stock of Gold Money (excluding India, China, and Egypt), which run back to 1839.

20. The writer's figures differ from other estimates in that the Stock of Gold Money is assumed to be added to each year by the amount of the world's gold production after deducting the absorption in the industrial arts of Europe and America and the absorption of India, China, and Egypt. The figures do not allow for wear and tear. This is considered to be negligible, since Professor Jevons, in the middle of the nineteenth century, showed it to be 0·0457 per cent. per annum for circulating coins only, while before the War money in circulation was one-third of the whole. The calculations start with an assumed £200,000,000 in 1843, and though their base is so distant in time, they have so far met the necessary tests very fairly. The totals at five yearly intervals are given in Table I, which shows how the Stock has been built up. Other estimates, which have sometimes varied widely in the past and which are largely of a non-continuous character, have been generally based on the visible stock of the moment in the banks and public treasuries of the principal countries, with an estimate of the gold in circulation. The following shows the correspondence between some of these estimates and those of the writer :—

—		Estimate.*	The writer.	Difference.
		£	£	
1848.	? Soetbeer	120,000,000	210,000,000	+ 67%
1873.	U.S. Mint (very incomplete) ...	249,000,000	586,000,000	+ 135%
1890.	Suess	665,000,000	720,000,000	+ 8%
1894.	"Wall Street Journal"	860,000,000	802,000,000	− 7%
1899.	U.S. Mint	948,000,000	958,000,000	+ 1%
1904.	"Wall Street Journal"	1,270,000,000	1,239,000,000	− 2%
1910.	U.S. Mint	1,438,000,000	1,454,000,000	+ 1%
1913.	Federal Reserve Board Bulletin ...	1,598,000,000	1,587,000,000	− 1%
1924.	U.S. Mint (incomplete)	1,950,000,000	2,100,000,000	+ 8%

21. The writer's own attempts to check the totals by observation made on the same lines as those adopted in the other estimates resulted in the 1913 and 1924 figures given in Table V, the 1913 amount checking within about 1 per cent. The figures *per capita* for the World's Stock of Gold Money, shown in Table I, are based on the total population of the world (duly computed by the writer for the purpose on the basis of censuses and estimates), including the population of India and China. They should, perhaps, be based on the population of the gold-money-using countries only, but this would involve too much labour, would result in jerks, and would be open to more errors of judgment. The figures *per capita* form an index of the growing Stock of Gold Money after allowing for increase of population.

* Excluding India, China and Egypt, where they are specified, in order to make the comparison fairer.

22. Following Professor Cassel's method the writer has taken years when commodity prices (Sauerbeck—"Statist" index) were at the same level and compared them with the increasing Stock of Gold Money. These years are not quite the same as those selected by the Professor, but consist of two sets—1851-1884-1907 when the index on a three-years (centred) average was 77 on each occasion (90 on the basis of 1913 = 100) and 1844-1880-1913 when the index similarly averaged, was 85 (100 on the basis of 1913 = 100). The periods covered are 56 years in the first case, and 69 years in the second. The results fitted to the Stock of Gold Money curve are :—

(*Increases per cent. per annum, compound.*)

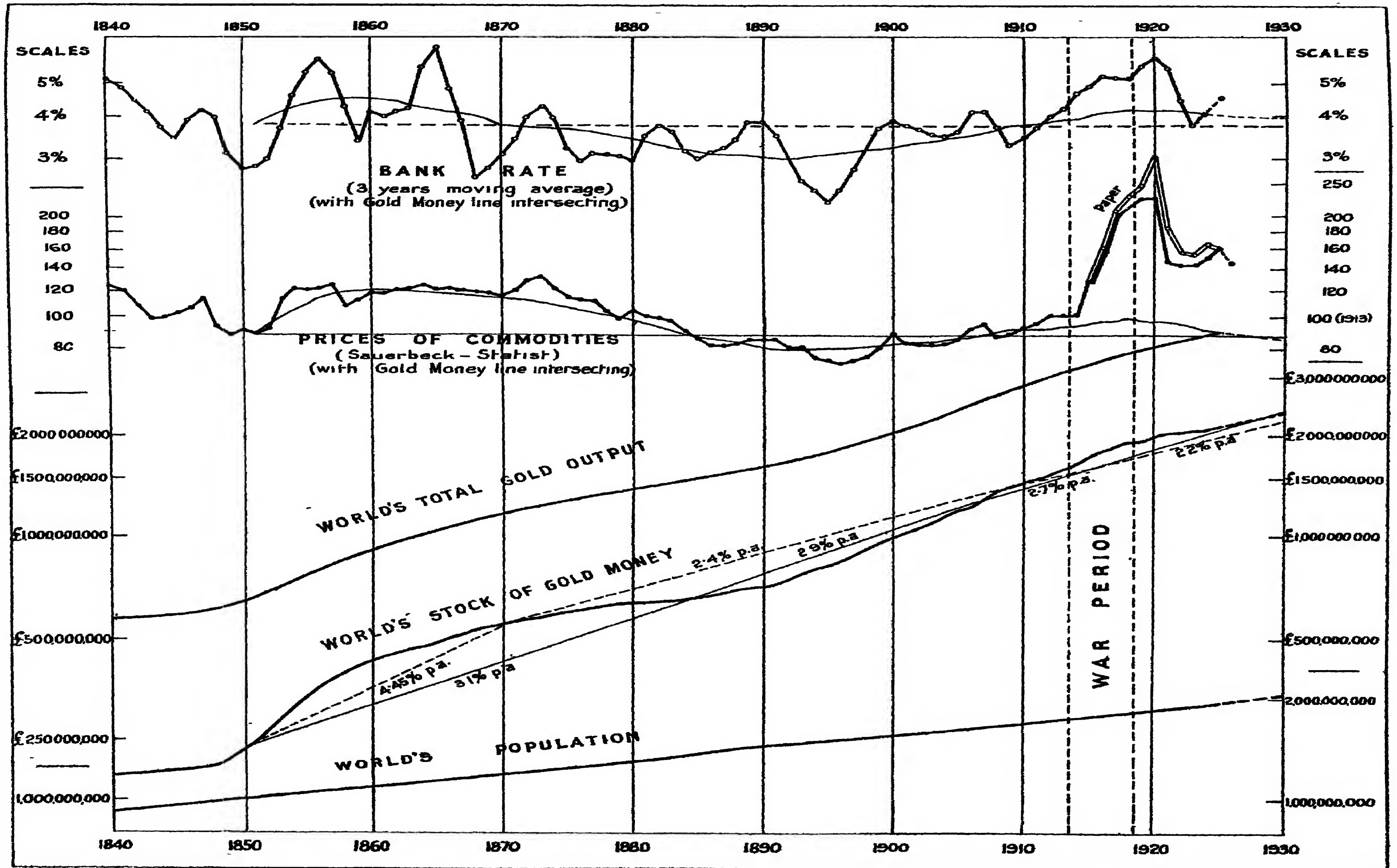
—	1851–1884 (33 years).	1884–1907 (23 years).	1851–1907 (56 years).	1844–1880 (36 years).	1880–1913 (33 years).	1844–1913 (69 years).
Stock of Gold Money	3·09	2·91	3·03	3·29	2·76	3·04
World's population...	0·85	0·83	0·85	0·84	0·87	0·85
Difference	2·24	2·08	2·18	2·45	1·89	2·19

23. How far the advance in the Stock of Gold Money exceeded the growth of population is indicated in the table. The Stock of Gold Money rate of increase shows a certain amount of slowing down, and this is just what one would expect if Gold Money has increased in efficiency with time, as is no doubt the case. The rates given are not those of the economic development of the world, but the increases in Gold Money necessary to maintain that rate of development. If adequate statistics of world economic factors were available they would doubtless show higher percentage increases than shown, and as an example the world's pig-iron output (not a money factor) increased 4·59 per cent. and 4·92 per cent. for the two sections of the period 1851-1907 and 4·76 per cent. and 4·23 per cent. for the two sections of the period 1844-1913.

24. The attached chart is drawn on a uniform logarithmic or ratio scale so as to give equal rates of increase precisely the same slope and to enable the various curves to be directly compared. It gives the growing Stock of Gold Money, showing clearly the impetus given by the Californian and Australian discoveries of 1848-1851 and by the discovery of the Rand in 1886, together with the slackening off which subsequently occurred in each case. The straight lines joining portions of this curve indicate that the rates of increase were different at different times (and it would, of course, show other differences if other portions of the curve were taken instead). The chart also gives the Sauerbeck—"Statist" index of Wholesale Prices of Commodities and the Bank of England Rate for Discount. The latter is given on a three-years moving average to partly remove the often violent annual variations, which are recorded in the writer's "Trade Cycles Chart." Through the Commodity Price curve and also through that of the Bank Rate are drawn lines showing the Stock of Gold Money for direct comparison. In drawing such curves it has naturally been necessary to appropriately slope the Stock of Gold Money curve so as to make it move about a horizontal level, and this has been done by drawing such lines as much above or below the horizontal base chosen as the Stock of Gold Money curve is above or below straight lines (shown on the chart) drawn between 1851-1884, 1884-1907 and 1907-1928 in the case of Commodity Prices, and between 1851-1870, 1870-1909 and 1909-1932 in the case of the Bank Rate, i.e., between years when Prices and the Bank Rate (nine years' average) respectively stood at the same level, except for the current periods, for which a drop of 0·2 per cent. per annum on the previous rate of increase is assumed as a result of the previous figures. The fit between Prices and the Stock of Gold Money is as good as could be expected, the variations shown by Prices from the comparison line being mainly those due to the trade cycle variations which are superimposed on the fundamental movements or trend produced by the varying Stock of Gold Money. In the case of the Bank Rate the fit is as good, and the trade cycle fluctuations swing the curve almost equally from side to side of the Gold Money line. The writer's attempt to carry back to 1800 the correspondence between the total gold supply and Prices of Commodities has met with very indifferent results.

25. The curves are continued into the future, but in view of the after-influences of the War, the result must be subject to a number of uncertainties, such especially as the doubt as to the period when "normality" in employment, pro-

GOLD MONEY, PRICES AND THE BANK RATE.



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duction, trade and commerce will be reached, and the speed and nature of the return to the gold standard after its abandonment during the War by every country except the United States of America. On the chart the stock of gold money has been extended from 1924 to 1930 on the basis indicated in the previous section of this statement, and the corresponding money lines have been extended through the commodity prices and Bank Rate curves from 1907 and 1909 respectively to 1930 on the method already mentioned.

26. The first point to be noticed is the character of the stock of gold money curve, which rose strongly from 1849 to 1861, while between 1861 to 1918 the rate of increase was sensibly lessened, and from 1891 to 1918 the rise was again prominent. During these periods (subject to a lag of some years) prices of commodities and the Bank Rate rose, fell and rose respectively as regards their general trend, and there is no doubt that, but for the War, the general advance in prices and the Bank Rate which commenced about 1896 would have lasted until about 1920. Since 1918 the rate of increase in the gold money stock has sensibly lessened as it did in the period 1861-1891 and this state of affairs seems likely to continue for some years to come, so that at any rate for another ten years to come there should (apart from the War) have been an appreciable fall in prices and a decline to a small extent in the average Bank Rate. Allowing for a lag in the operation of the influence of the stock of gold money, and assuming that the chart has been correctly drawn, prices should have risen (on the basis of 1913 = 100) from 80 to 1896 to 100 at 1920 and then should have fallen to 90 at 1930 and 85 at 1935; and the Bank Rate, after rising from the neighbourhood of 3 per cent. at 1895 to the neighbourhood of 4 per cent. at 1920, should have remained more or less at that level afterwards, considering, of course, only the matter of trend and not trade cycle variations.

27. That prices will actually reach an index of 90 by 1930 is too much to expect, as the influence of the War will not have ceased by then or probably for some time afterwards, but already they have dropped from the high level of 230 (gold) for 1919-1920 to about 140 in 1922-1923 with a recovery to 158 for 1925, while the present figure is 148. It would seem evident from a study of the chart that they may go a considerable way towards 90 in the next few years. Generally it seems that unless strict economy in the use of gold is exercised, the trend of prices must be downward for a long time to come. The Bank Rate should apparently oscillate about 4 per cent. with, if anything, a declining tendency.

28. As previously shown, Professor Cassel applies his required annual rate of increase of 2·8 per cent. to the aggregate gold production, and at the Brussels Conference of 1920 he gave £100,000,000 as the annual gold production then necessary to meet the economic development of the world and maintain the stability of prices. The amount increases of course annually at 2·8 per cent. compound interest and the £100,000,000 needed in 1920 would become £132,000,000 per annum in 1930 and £174,000,000 in 1940. These figures compare with an annual gold production which is at present £80,000,000 per annum, has never exceeded £96,400,000, and has averaged £74,000,000 for the last eight years.

29. Using the different figures of the present statement, and in view of the rate of increase in the stock of gold money having been 3·09 per cent. per annum in the period 1851-1884 and falling to 2·91 per cent. in 1884-1907 owing to the increasing efficiency of gold money, the rate of increase at present applicable may be taken at the 2·7 per cent. rate already suggested. In 1907, the stock of gold money was £1,289,000,000, and the following compares the amount at which this should increase to keep pace with the world's economic development with the actual or anticipated stock :—

—	Stock required.	Actual Stock.	Difference.	For five year periods. Increase in Stock required.	Increase in Actual Stock.	Difference.
	£	£	£	£	£	£
1910 ...	1,393,000,000	1,454,000,000	+ 61,000,000	—	—	—
1915 ...	1,592,000,000	1,736,000,000	+144,000,000	199,000,000	282,000,000	+ 83,000,000
1920 ...	1,819,000,000	1,977,000,000	+158,000,000	227,000,000	241,000,000	+ 14,000,000
1925 ...	2,079,000,000	2,137,000,000	+ 58,000,000	260,000,000	160,000,000	—100,000,000
1930 ...	2,377,000,000	*2,305,000,000	— 72,000,000	298,000,000	*168,000,000	—130,000,000
1935 ...	2,717,000,000	*2,425,000,000	—292,000,000	340,000,000	*120,000,000	—220,000,000

* As estimated.

The position speaks for itself. During the 10 years 1926-35 an average of £64,000,000 per annum of addition to the gold money stock is required, and the estimate, based on the Indian monetary system as at present, falls short of this by about 55 per cent. The past five years have added an average of £32,000,000 per annum, and the estimate for the next ten years suggests an average rather less than this. It is evident that great economy in the use of gold, both in regard to its use as a commodity and in respect of its use as money, is very necessary. Unless that economy is exercised we have to look forward to a prolonged period of steadily falling commodity prices and of a diminishing degree of prosperity and economic development throughout the civilised world, including India.

30. The amount of gold required to keep pace with the economic progress of Great Britain cannot be sharply distinguished from that required for the world. What affects one will affect the other, and commodity prices are to a large extent world prices.

II.—SILVER.

The Effect of the Price of Silver on the Production of the Metal.

31. There are striking contrasts in the manner of occurrence and winning of gold and silver, which (from an economic point of view) may be summarised thus :—

Gold.	*Silver.*
Almost always native (chemically free). Usually associated with sulphides, &c., of other metals.	Always chemically combined with sulphur and other elements, except when it occurs native in oxidised deposits near the surface.
Largely found in alluvial, in banket and in lodes.	Never (practically) found in alluvial or in banket, and almost entirely in lodes and other non-alluvial ore bodies.
Mostly won for itself alone.	Largely won with other metals, often as a bye-product.
Subject to sudden increases of output owing to alluvial discoveries and such discoveries as that of the Rand.	Not being found in alluvial, there is less liability to sudden increase. Cobalt was exceptional, and its production has already fallen to about one-third of the maximum of 1911.
British Empire produces 70 per cent. of world's output.	British Empire produces 15 per cent. of world's output.
America (including Canada) produces 30 per cent. of world's output	America (including Canada) produces 85 per cent. of world's output.
Output at its highest (1915) 196 per cent. above 1893.	Output at its highest (1923) 50 per cent. above 1893.
Output for 1925 147 per cent. above 1893.	Output for 1925 42 per cent. above 1893.

Silver being largely won in association with other metals, it becomes desirable for the purpose of this enquiry to ascertain how far it is won for its own sake and how far as an accessory or bye-product. Official figures are obtainable only in respect of the United States and Canada, which represent about 35 per cent. of the production, and in the case of the United States it is not possible to separate between silver or silver-gold ores where silver is the more valuable metal and gold-silver ores where the gold contents are the more valuable. Even were it possible it must be realised that it is difficult to draw a dividing line between the two classes, for one shades insensibly into the other. Where silver is won in conjunction with base metals—copper, lead, zinc, and (in Bolivia) tin—it can be sharply separated because such ores are always smelted, while where silver and gold alone are won—from so-called dry siliceous ores—quartz mills, usually with some chemical treatment, are almost exclusively employed, save for exceptionally high-grade ore which may be sent to smelters. In the case of Mexico, which is as important a producer as the United States and Canada combined, the necessary data for making a separation between the various classes cannot be obtained from official statistics, it has to be largely guessed.

32. As regards the United States the proportions of silver obtained from dry siliceous ores and from base metal ores, according to the United States Geological Survey, were 27·8 per cent. and 72·2 per cent. respectively in 1900, 24·9 per cent. and 75·1 per cent. in 1905, 40·4 per cent. and 59·6 per cent., in 1910, and 39·5 per cent. and 60·5 per cent. in 1913, while in 1924 they were 31·9 per cent. and 68·1 per cent. But it is better to observe the quantities rather than these percentages, and then it is found that, from 1900 to 1924, except during the years around the end of the war, the output from base metal ores was steady throughout at between 41,000,000 and 45,000,000 fine ozs. per annum, any variation in the country's total production, which during that period moved between 52,000,000 and 75,000,000 fine ozs., being traceable to dry siliceous ores. This steadiness and lack of increase in the output of silver from base metal ores is the more remarkable because the United States production of copper, zinc, and lead has increased from two to four and a half times since 1900. Such a result is doubtless due partly to some of the more important copper mines carrying little or no silver and partly to the proportion of silver in the base metal ores decreasing with time.

33. Taking the year 1924, one may venture on the following estimate of the origin of the world's silver output. "Silver ores" in the table are to be considered as those containing either silver alone or more usually silver and gold ores where the silver constituent is the most important in value (i.e., ores which are won mainly for the sake of their silver content), "gold ores" are those containing gold and silver where the value of the former metal preponderates (i.e., ores won mainly for the sake of their gold content), and "base metal ores" are those where copper, lead, zinc, and tin or one or more of them are associated with silver and gold, and where the value of the base metals preponderates. Often, of course, silver or gold ores contain base metals, but in quantity insufficient to justify smelting, and in such case they are treated in quartz mills for their content of precious metals only, and are then classed as "silver ores" or "gold ores." In Mexico a large proportion of the smelter production—the writer takes it at as much as 20,000,000 ozs.—comes from material high in silver and low in lead or copper, and this is accordingly classed among "silver ores":—

—	Dry siliceous ores.		Base metal ores.	Total annual production.
	Silver ores.	Gold ores.		
	Fine ozs.	Fine ozs.	Fine ozs.	Fine ozs.
Mexico	50,000,000 = 54%	6,000,000 = 7%	36,000,000 = 39%	92,000,000
United States ...	19,000,000 = 29%	2,000,000 = 3%	44,000,000 = 68%	65,000,000
Canada	12,000,000 = 60%	3,000,000 = 15%	5,000,000 = 25%	20,000,000
Central and South America	6,000,000 = 21%	—	23,000,000 = 79%	29,000,000
Oceania	—	1,000,000 = 9%	10,000,000 = 91%	11,000,000
Asia	1,000,000 = 9%	1,000,000 = 9%	9,000,000 = 82%	11,000,000
Europe	—	2,000,000 = 22%	7,000,000 = 78%	9,000,000
Africa	—	2,000,000 = 100%	—	2,000,000
	88,000,000 = 37%	17,000,000 = 7%	134,000,000 = 56%	239,000,000

The figures are uncertain, as may be gathered by comparison with other estimates:—

? Author (1887) ...	56,500,000 = 56½%	500,000 = ½%	43,000,000 = 43%	100,000,000
Carpenter and Cullis* (on 1912).	46,000,000 = 20%	35,000,000 = 15%	152,000,000 = 65%	233,000,000
Above (on 1924) ...	88,000,000 = 37%	17,000,000 = 7%	134,000,000 = 56%	239,000,000

* "Report on the World's Production of Silver" to the Indian Currency Committee of 1919. Ounces added.

34. The estimate now made indicates that to the extent of about two-thirds of the output silver is not won for its sake alone, but either as a bye-product or in conjunction with gold. If a substantial fall in the price of silver were to take place any consequent curtailment of the output would hardly affect the base metal product at all, would have more but still little influence on the production from gold ores, and would have its chief effect on silver ores, i.e., upon 37 per cent. of the silver production. Even here the effect would be smaller than might at first sight be expected, because, in cases where the profit is sufficiently large to leave a favourable balance at the lower price level, production would continue, and might even

be stimulated in the attempt to maintain the aggregate profit, and in cases where the profit was wiped out the mines would struggle to continue their production as long as possible. The latter remark applies to existing mines, but, of course, the reduction in price would tend to strongly discourage the opening up of new ones. It must also be remembered that mining is not subject to the usual rules by reason of the glamour associated with it, so that a mine is usually not shut down when it becomes unprofitable to work it until necessity, in the shape of refusal to keep up the supply of further funds, compels cessation of operations.

35. During the period since 1890 the output, averaged over periods of seven to ten years, has been steady at about 0·11 fine oz. per head of the world's population, while from 1871 to 1917—when the price of silver varied extremely—the aggregate value of the annual production moved only between 3·2*d.* and 3·7*d.* per head.

36. From 1835 to a few years before the War the curves of the production and the price were complementary (i.e., moved oppositely in relation to each other) to a remarkable degree, a steady or slightly rising output accompanying a steady price, whether at 65*d.* or 30*d.* per fine oz., while the great advance in production from 1874 to 1893 accompanied the slump from the higher level to the lower. In recent years (1919-1922) in the United States, with $1 per fine oz. or more paid for domestic silver, the output of the United States was the lowest since 1910, at an average of 55,000,000 oz. per annum. Thus there are indications that a high output is consistent with a low price and a low output with a high price. In the years 1917-1920, when the London quotation of silver was exceptionally exaggerated, the output was 17½ per cent. below the level of 1910-1912, and since, with a lower quotation, it has advanced beyond the pre-war level.

37. While there was a very heavy fall in price down to the 38·6*d.* per fine oz. of 1893, the relapse after that date to 26·0*d.* in 1902 could be calculated to be hardly less severe in its effect on the margin of mining profits, but for the whole of this interval and for four years thereafter—i.e., 14 years in all—the world's production kept remarkably steady, the annual amounts never varying more than 9,000,000 oz. from the average of 166,000,000 oz., and showing no tendency either to rise or fall. During this period the important cyanide process was introduced (from about 1895), and generally metallurgy improved, so that the extraction of silver from its ores was markedly increased, which no doubt had its effect in maintaining the output and preventing the disappearance of mining profits.

38. In 1911 the output of Mexico was 79,000,000 fine oz., and it fell to an average of 35,000,000 oz. for 1914-1917 owing to the revolutionary troubles in that country, which synchronised with—but were not due to—the Great War. For the ten years 1912-1921, after which the annual rate recovered to 81,000,000 oz., the country's production was 546,000,000 oz., while if it had continued at 79,000,000 oz. per annum it would have been 790,000,000 oz., so that its output was reduced 244,000,000 oz. in this period. That amount, added to the world's actual production of 1,881,000,000 oz., would have made it 2,125,000,000 oz., or 13 per cent. more, and in such case the shortage in 1918—relieved by the United States Government's sales under the Pittman Act of an amount approximately equal to this ten years' shortage—might not have been felt so acutely. It is difficult, however, to say whether Mexico's failure to contribute its share to the world's output caused a rise in the price of silver, because of the conditions produced by the War. But the object of the present remarks is to indicate that in the past the output has been largely—in the aggregate and over long periods—independent of price, and that a considerable increase in production may occur in spite of falling prices, and *vice versa*. The point at present being considered is not the effect of supply (and demand) upon prices, but the effect of prices on supply (production), which is a different matter.

39. The conclusion reached is that a reduction of price, unless exceptionally severe, would not necessarily have any but a gradual effect on production, or at least that the effect would be considerably less than might be expected if judged by standards applied to other commodities. This idea is based on a variety of points dealt with above—chief among which are that silver is mainly won in association with other metals; that ordinarily the production increases with time, not necessarily as the result of new discoveries more than replacing exhausted mines, but as the result of improved metallurgy; that the past has not indicated that a falling price necessarily reduces production; and that there is in any case a considerable amount of inertia or lag in movements from the nature of the case.

THE RELATION BETWEEN THE DEMAND FOR AND THE SUPPLY OF SILVER.

40. It may be generally said that estimates forecasting the future of silver are usually unduly optimistic, owing more to overrating the probable demand than to understating the probable production. As examples the following may be given. The first is extracted from an article by Mr. Moreton Frewen in "The Nineteenth Century" for February 1919, quoting figures stated to have been supplied by the Director of the United States Mint to Governor Boyd with the phraseology there used; and the second is from "The Mineral Industry" for 1918, quoted by Professors Carpenter and Cullis in their "Report on the World's Production of Silver" to the Indian Currency Committee of 1919, but there attributed to a different source :—

A 30 years' forecast for silver, 1918-48. *Annual demand. Silver at* 5s. *per oz.*	*Oz.*	*Mineral Industry*, 1918. *Oz.*
Net silver to liquidate India's annual balance of trade (£70,000,000 or Rs. 2 per capita) after defraying her home charges	250,000,000	150,000,000
For China, Hongkong, Malaysia and the Phillipines	50,000,000	40,000,000
World's silversmiths' demand on pre-War scale	120,000,000	75,000,000
For subsidiary currencies, Europe and America	70,000,000	60,000,000
New silver for the currency requirements of the Nigerias, West Africa, German and British East Africa	100,000,000	25,000,000
For the reimbursement of the Bland dollars (Pittman Act) for, say, eight years	50,000,000	
Total demand	640,000,000	350,000,000
Present world production from the mines; estimate of Director of the Mint for 1916-17 ...	157,000,000	
World's deficit, say	483,000,000	

41. Table II attached with the complementary Tables III and IV show the actual supply and demand over a long period of time in quinquennial and thirty-year periods. The figures from the discovery of America in 1493 down to 1834 (their division under the various heads being guessed) are inserted in an attempt at completeness. Table III shows how persistently India has absorbed silver, and with more regularity than in the case of gold. The preference for gold has become pronounced in the last 30 years, and the proportions (in value) of 70 per cent. of silver and 30 per cent. of gold in the 60 years to 1894 changed to 45 per cent. and 55 per cent. respectively in the period which has since elapsed. Nevertheless, the absorption of silver in the three successive periods of 30 years each to 1894 was 493,000,000 oz., 783,000,000 oz. and 1,930,000,000 oz. The rate of increase seems at first sight to have been affected by the reduction in price. This is no doubt true as regards private imports, but including Government purchases for coinage the prices annually from 1900 and 1917 moved largely according to the size of the Indian importation, the years of heaviest absorption being usually those of highest price, and *vice versa*. Indeed, in the 11 years of Government purchases the annual average price varied between 24·7*d.* and 40·9*d.* per standard ounce, while during the 7 years when private imports alone took place, the annual average price moved only between 23·7*d.* and 25·3*d.*—a difference due to the Government's considered practice of only buying when requirements could be clearly foreseen.

42. Private and Government net imports of silver since a year after the closing of the mints have been :—

——	Private.	Government.	Total.
	Fine ozs.	Fine ozs.	Fine ozs.
5 years to 1899–00	128,000,000	—	128,000,000
" 1904–05	155,000,000	109,000,000	264,000,000
" 1909–10	230,000,000	172,000,000	402,000,000
" 1914–15	201,000,000	81,000,000	282,000,000
" 1919–20	27,000,000	467,000,000	494,000,000
" 1924–25	357,000,000	3,000,000	360,000,000
	1,098,000,000	832,000,000	1,930,000,000
Annual averages.			
10 years to 1904–05	28,300,000	10,900,000	39,200,000
" 1914–15	43,100,000	25,300,000	68,400,000
" 1924–25	38,400,000	47,000,000	85,400,000

The private import figures have of course been severely affected in the last ten years—first by the prohibition of silver imports in September 1917, and then by the removal of import restrictions and abolition of the 4*d*. import duty in February 1920. During the last 5-year period an average of 71,000,000 oz. per annum was imported privately, but this was exceptional as it immediately followed two and a half years of prohibition of imports and the cancellation of the import duty. In view of this and the earlier figures it would seem that, assuming Indian conditions remain unchanged, the average private demand may well be 50,000,000 oz. rising to 70,000,000 oz. per annum, to which the requirements for coinage, doubtless on a reduced scale as compared with the average of the last 20 years and requiring say 30,000,000 oz., must be added.

43. China's demand is more difficult to estimate, though smaller figures come into question. Its absorption according to the published Customs figures given in Table IV (which are probably much below the mark for reasons referred to in the footnote to that table) varies exceedingly, and it has taken as much as 113,000,000 fine oz. in a year—the abnormal year 1920. Taking the seven quinquennia covering the period 1890-1924 the quantity figures as judged by the London price are :— 31,000,000 fine oz., 57,000,000 oz., then an out turn of 28,000,000 oz. followed by another of 75,000,000 oz. and for the last three quinquennia net imports of 123,000,000 oz., 13,000,000 oz., and 311,000,000 oz. On the figures it disgorged silver in 1890-1891, 1901-1908, and 1914-1917, absorbing it in the remaining years. The total for the 35 years was 432,000,000 oz., or an average of 12,400,000 oz. per annum. For the 15 years to 1924 it was 447,000,000 oz. or an average of 29,800,000 oz., while excluding the 5 years to 1919 it rises to 43,400,000 oz per annum. It would seem that China's absorptive power is growing—though as the trade returns show an adverse balance every year on merchandise it is difficult to judge—and the demand for the next 10 years is likely to average anything between 30,000,000 and 50,000,000 oz. per annum, though as in the past the absorption may well be less—or more.

44. The industrial arts before the war, as in the case of gold, took an increasing amount of silver, in addition to old silver re-utilised. Every five years from 1875 to 1914 there was an appreciable increase, but since the war there has been a marked decline, which is probably only temporary. The more recent figures for new silver are estimated as follows, but for the last 10 years especially are very approximate :—

—	United States.	Rest of World (excluding India and China).	Total.
	Fine ozs.	Fine ozs.	Fine ozs.
5 years to 1904	75,000,000	180,000,000	255,000,000
" 1909	101,000,000	209,000,000	310,000,000
" 1914	120,000,000	240,000,000	360,000,000
" 1919	114,000,000	136,000,000	250,000,000
" 1924	132,000,000	113,000,000	245,000,000

The United States before the War took about a third of the total and its demand, after being temporarily checked, is again growing, the highest figure so far reached being 31,300,000 oz. in 1922. The rest of the world has considerably abated its needs and its recovery will be slower. The industrial absorption during the next 10 years will probably be 60,000,000 to 80,000,000 oz. annually.

45. The requirements for coinage for the rest of the world are very difficult to estimate for the figures very widely. In a few years to 1923, Europe has absorbed nothing and indeed added to the supply, first by Continental hoarding and realisation, and latterly by reason of the debasement of British coin, but judging by pre-war standards it should need 25,000,000 oz., rising to 35,000,000 oz. a year, and the amount may well be considerably more as a result of Continental re-monetisation. America—mainly the United States and Mexico, the latter of which has recently been exceptionally coining at the rate of 10,000,000 oz. per annum—should need 15,000,000 oz. a year. Africa has absorbed large amounts, but in recent years has disgorged. It may be set down for 5,000,000 oz. Japan, Hong-Kong, Indo-China and Asia, apart from India and China may take an average of 15,000,000 oz., though the amount on occasion may easily be more.

46. The production of silver in the next ten years—given no surprises with effects similar to the Cobalt discoveries or the Mexican revolution—may perhaps be gauged from the trend of recent years, and may be set down at:—

	1925 *Output.* *Fine oz.*	*Possible* 1935 *Output.* *Fine oz.*
Mexico	89,000,000	105,000,000
United States	66,000,000	75,000,000
Central and South America ...	27,000,000	30,000,000 to 40,000,000
Canada	20,000,000	20,000,000 to 30,000,000
Australia	11,000,000	5,000,000 to 10,000,000
Rest of the World	27,000,000	25,000,000 to 40,000,000
Total annual production ...	240,000,000	260,000,000 to 300,000,000

The consumption already suggested is :—

	10 *years*, 1926-1935. *Fine oz.*
Industrial arts	60,000,000 to 80,000,000
India :	
Private imports	50,000,000 to 70,000,000
Coinage (average)	30,000,000
China	30,000,000 to 50,000,000
Coinage :	
Europe	25,000,000 to 35,000,000
America	15,000,000
Africa	5,000,000
Rest of Asia	15,000,000
Total expected annual consumption	230,000,000 to 300,000,000

47. Probably the demand will on the whole be a growing one, and something near the lower of the limits mentioned may be held to apply at the beginning of the period and something near the higher at the end of it.

48. Thus the position at the beginning and end of the period may be viewed as follows—

	1926. *Fine oz.*	1935. *Fine oz.*
Production	240,000,000	280,000,000
Consumption	240,000,000	280,000,000
Over- or under-production	Nil.	Nil.

The demand must in the event be equal to the supply, and the price of silver will be adjusted to make it so.

The Effect on the Price of Silver of Realising 20 Crores of Rupees Annually.

49. The proposal to sell 68,700,000 fine oz. annually for ten years necessarily involves a discontinuance of the use of new silver for Indian coinage. The amount therefore is in effect about 100,000,000 fine oz. yearly.

50. In the previous section the writer has assumed the probable annual output of silver for the next 10 years, with Indian conditions unchanged, at an average of about 265,000,000 oz., and has also ventured the opinion that to a large extent the output is independent of price, as for the most part silver is won with other metals. Postulating a material reduction in price the expected output might be reduced by 35,000,000 oz. to 230,000,000 oz. per annum, but the sale of the 68,700,000 oz. would in effect add that amount to the production, raising it to say 300,000,000 oz. yearly. Demand and supply would be equal, and cheaper silver would stimulate the consumption of China and the industrial arts, while it would hardly affect coinage in the rest of the world. It would probably also stimulate the private demand of India, *unless* the degrading of

the rupee caused a lack of faith in silver. The position might change as follows, taking annual averages for the ten years :—

—	From	To	Increase.
	Fine oz.	Fine oz,	
India : Private imports	60,000,000	80,000,000	33 %
China	40,000,000	55,000,000	38 %
Industrial Arts	70,000,000	100,000,000	43 %
Demand	170,000,000	235,000,000	38 %
India Coinage	30,000,000	Nil.	—
Coinage of rest of the World	65,000,000	65,000,000	Nil.
	265,000,000	300,000,000	13 %

Thus supplies would be increased by 13 per cent., but in order to absorb them those who have the choice of buying would (unless silver were to cease to be a marketable commodity) be compelled to increase their takings by an average of 38 per cent. This would mean a profound change in the position, and it could not be effected suddenly and must take time. The more quickly it were applied the wilder would be the variations in the price of silver and the effect on production.

51. In a previous section of this statement attention has been called to the fact that the fall in the price of silver following its virtual demonetisation in Germany in 1871 and the closing of the Indian mints in 1893 did not prevent a very large increase in the production taking place, and that the curves of the production and the price were complementary (i.e., moved oppositely in relation to each other) to a remarkable degree. This, of course, suggests that if the curves were entirely complementary, the aggregate value of the annual production would remain at the same level. How far this is the case is indicated in Table II., which shows that it varied little in the 20 years before the War. As a matter of fact, from 1894 to 1911 the annual values of the output only moved between £17,700,000 and £25,100,000, a variation of not more than 18 per cent. from the mean, the values slightly increasing with time. This phenomenon is altogether contrary to experience in regard to other metal commodities, as is shown in the following table. The period covered is the 20 years 1893-1913, split in the middle, and three-year (centred) averages are used in order to cancel to some extent the distorting effect of trade cycle movements. Index numbers are placed below each figure :—

—	1894.			1903.			1912.		
	Output.	Price.	Value.	Output.	Price.	Value.	Output.	Price.	Value.
Copper ...	Long tons. 320,000,000 100	£46·1 100	£14,800,000 100	Long tons. 587,000,000 183	£58·2 126	£34,100,000 231	Long tons. 946,000,000 295	£69·0 150	£65,300,000 442
Tin ...	72,000 100	£72·2 100	£5,200,000 100	95,000 132	£126·0 174	£12,000,000 230	118,000 164	£186·0 258	£22,000,000 423
Zinc ...	386,000,000 100	£15·8 100	£6,100,000 100	571,000,000 148	£20·6 130	£11,800,000 193	945,000,000 245	£24·7 156	£23,300,000 382
Lead ...	619,000,000 100	£10·2 100	£6,300,000 100	905,000,000 146	£11·6 114	£10,500,000 167	1,166,000,000 189	£16·8 165	£19,600,000 312
Silver ...	Fine oz. 166,000,000 100	Fine. 34·1d. 100	£23,600,000 100	Fine oz. 165,000,000 99	Fine. 27·1d. 80	£18,600,000 79	Fine oz. 222,000,000 134	Fine. 28·9d. 85	£26,800,000 114
World's population	1,472,000,000 100			1,573,000,000 107			1,717,000,000 117		

52. The more the output of the base metals was advanced in relation to the growth of population, the less was the rate of advance in price, though that advance was nevertheless substantial; and the value of the production rose enormously in the period in all cases, i.e., the metals became an increasing necessity of life as mechanics more and more replaced muscle. The case, it is clear, was entirely different with silver, which is to a large extent a luxury commodity, whose value, considering the metal as being a form of wealth, may easily be destroyed. Even

if one discounts the silver figures of the 1893-1903 period, in view of the effect of the closing of the Indian mints to private coinage, the fact remains that ten years after that closing—for it took a long time for the demand to readjust itself to the shock—the value of the production had not risen as in the case of base metals, or indeed risen at all, though it increased afterwards till the War.

53. The figures of the years 1914-1922 are utterly unrepresentative of normal conditions, but it happens that the fairly well-defined trend of the production value between 1902 and 1913, subject to trade cycle fluctuations, was represented by a rising straight line, which, *if* extended through the War and after-War period, would pass through the £33,000,000 to £34,500,000 (gold) values of 1923, 1924, and 1925, and would show a value of £38,000,000 at 1930 and of £41,000,000 at 1935. With a production of, say, 260,000,000 oz. in 1930 and of 280,000,000 oz. in 1935, these values would mean prices of 35*d*. per fine oz. at both 1930 and 1935, given that Indian conditions remained unchanged. According to the first table above, Indian private importers, China, and the industrial arts, if Indian conditions remained unchanged, would have been expected to pay 35*d*. per fine oz. for 170,000,000 oz., or £24,800,000 per annum, and if it is assumed they were willing to pay that sum for the 235,000,000 oz. they would be asked to take (i.e., that the price were merely proportionately reduced), it would mean a price of 25·3*d*. per fine oz. or 23·4*d*. per standard oz.

54. This assumes that the rising trend of the value of the production continued uninterruptedly through the War and after-War years, or could be picked up at its normal point now. One has, however, to remember—

(1) That, as shown in the "Gold" section of this statement, the trend of commodity prices and economic factors generally should, quite apart from the War and the changes it has brought about, have continued until 1920, and then have turned downward or flattened.

(2) The effect on the silver price of events comparable to the suggested policy, such as the virtual demonetisation of silver by Germany in 1871 and the closing of the Indian mints to private coinage in 1893.

(3) The very demoralising consequences to the market of having this additional silver hanging over it for ten years.

(4) The possibility that the people of India would lose faith in silver as a result of the degradation of the rupee, and consequently decrease instead of increase the private imports.

(5) That much would depend not merely on the Government's action as regards silver, but also on its policy as regards gold. If that were in the direction of introducing a gold currency, it would largely augment the already excessive demand for a metal that threatens to be increasingly short supply, and the prolonged fall in prices generally which from other considerations has been assumed would be considerably accentuated. This would, of course, have its effect on the price of silver.

In view of these considerations it would be bold to expect an average price of 24*d*. per standard ounce to be secured.

TABLE I.—CONSUMPTION OF THE WORLD'S GOLD SUPPLY, AND WORLD'S STOCK OF GOLD MONEY.

(*In millions of pounds sterling at 84/11½ per fine ounce.*)

(*Proportion of current output consumed as additional figures under first five headings.*)

—	INDUSTRIAL.[1]		INDIA.[2]		CHINA AND EGYPT.[3]		TOTAL DEMAND.		BALANCE AVAILABLE AS MONEY.		WORLD'S GOLD OUTPUT.		STOCK OF GOLD MONEY.[4]			WORLD'S POPULATION.[5]	
											Total.	Increase.	Total.	Increase.	Per head.	Millions.	Increase.
1493 to 1834 [6] ...	(280)	(50%)	(60)	(10%)	(28)	(5%)	(368)	(65%)	(196)	(35%)	564	—	196	—	53*d.*	890	—
5 years to 1839 ...	12	86%	2	14%	?		14	100%	—	—	14	—	196	—	51*d.*	925	4%
" 1844 ...	13	65%	2	10%	?		15	75%	5	25%	20	42%	201	3%	50*d.*	964	"
" 1849 ...	15	40%	5	13%	?		20	53%	18	47%	38	90%	219	9%	53*d.*	1,003	"
" 1854 ...	16	14%	5	4%	?		21	18%	97	82%	118	210%	316	44%	73*d.*	1,044	"
" 1859 ...	21	15%	16	12%	?		37	27%	101	73%	138	17%	417	32%	92*d.*	1,089	"
" 1864 ...	31	25%	35	28%	?		66	53%	59	47%	125	− 9%	476	14%	101*d.*	1,134	"
" 1869 ...	43	32%	24	18%	?		67	50%	67	50%	134	7%	543	14%	110*d.*	1,184	"
" 1874 ...	58	48%	11	9%	?		69	57%	51	43%	120	− 10%	594	9%	115*d.*	1,235	"
" 1879 ...	59	53%	3	3%	5	4%	67	60%	45	40%	112	− 7%	639	8%	119*d.*	1,292	"
" 1884 ...	53	51%	19	18%	9	9%	81	78%	23	22%	104	− 7%	662	4%	118*d.*	1,350	"
" 1889 ...	50	44%	12	10%	4	4%	66	58%	48	42%	114	10%	710	7%	120*d.*	1,413	"
" 1894 ...	52	34%	4	3%	4	3%	60	40%	91	60%	151	32%	801	13%	131*d.*	1,472	"
" 1899 ...	65	26%	24	9%	8	3%	97	38%	156	62%	253	68%	957	19%	151*d.*	1,526	"
" 1904 ...	79	26%	31	10%	17	6%	127	42%	179	58%	306	21%	1,136	19%	172*d.*	1,588	"
" 1909 ...	95	22%	50	12%	13	3%	158	37%	273	63%	431	41%	1,409	24%	203*d.*	1,666	5%
" 1914 ...	121	26%	96	20%	6	1%	223	47%	247	53%	470	9%	1,656	18%	226*d.*	1,752	"
" 1919 ...	91	21%	51	12%	14	3%	156	36%	274	64%	430	− 9%	1,930	17%	254*d.*	1,820	4%
" 1924 ...	87	24%	103	29%	− 2	− 1%	188	52%	170	48%	358	− 17%	2,100	9%	264*d.*	1,910	5%
1493 to 1834	(280)	(50%)	(60)	(10%)	(28)	(5%)	(368)	(65%)	(196)	(35%)	564	—	196	—	53*d.*	890	—
30 years to 1864 ...	108	24%	65	14%	?		173	38%	280	62%	453	—	476	—	101*d.*	1,134	—
" 1894 ...	315	43%	73	10%	22	3%	410	56%	325	44%	735	62%	801	68%	131*d.*	1,472	30%
" 1924 ...	538	24%	355	16%	56	2%	949	42%	1,299	58%	2,248	206%	2,100	162%	264*d.*	1,910	30%
TOTALS	1,241	31%	553	14%	106	3%	1,900	48%	2,100	52%	4,000	—	—	—	—	—	—
5 years to 1929 [7] ...	*90*	*23%*	*120*	*30%*	*10*	*3%*	*220*	*56%*	*175*	*44%*	*395*	*10%*	*2,275*	*8%*	*272d.*	*2,010*	5%
" *1934* [7] ...	*110*	*31%*	*110*	*30%*	*15*	*4%*	*235*	*65%*	*125*	*35%*	*360*	*− 9%*	*2,400*	*5%*	*272d.*	*2,120*	"

(1) Europe and America. Based on Soetbeer for 1831–1880 and Bureau of U.S Mint for 1890–1913, the other figures being approximated by the writer.

(2) Net import for years to March 31st following, plus country's own production for calendar years.

(3) Egypt from 1879 only and China from 1889 only (except for the guess of the first line), plus, in the case of the latter, the country's own production.

(4) At end of period, built up on the "Balance Available as Money" column. Excluding India, China and Egypt. The per head figures (in pence) based on the estimated population of the world, not of gold using countries only.

(5) At end of period.

(6) Figures divided roughly at a guess, in order to give totals from the discovery of America.

(7) A rough forecast. Not actual figures.

TABLE II.—CONSUMPTION OF THE WORLD'S SILVER SUPPLY.

(In millions of fine ounces.)

(Proportion of current output consumed as additional figures under first five headings.)

	Industrial[1]		India.[2]		China.[3]		Total Demand apart from Coinage.[4]		Balance of[5] Output.		World's[6] Output. Total.	World's[6] Output. Increase.	London Price. Per fine oz.	Value of Production. £	Chronology.
1493 to 1834[7]	(1,350)	(30%)	(1,350)	(30%)	(450)	(10%)	(3,150)	(70%)	(1,331)	(30%)	4,481	—	(65d.)	1,215,000,000	
5 years to 1839	30	30%	33	33%	?		63	63%	37	37%	(100)	—	64·6d.	27,000,000	
" 1844	35	29%	40	33%	?		75	62%	45	38%	120	20%	64·5d.	32,000,000	
" 1849	35	27%	15	11%	?		50	38%	80	62%	130	8%	64·4d.	35,000,000	
" 1854	40	28%	43	30%	?		83	58%	59	42%	142	9%	65·9d.	39,000,000	
" 1859	45	31%	185	128%	?		230	159%	−85	−59%	145	2%	66·5d.	40,000,000	1859. Nevada silver discoveries.
" 1864	50	28%	177	100%	?		227	128%	−50	−28%	177	22%	66·3d.	49,000,000	1865. Latin Union formed.
" 1869	50	23%	167	78%	?		217	101%	−2	−1%	215	21%	65·7d.	59,000,000	1871. Germany adopts gold standard.
" 1874	75	24%	52	16%	?		127	40%	190	60%	317	47%	64·7d.	85,000,000	1873. United States adopts gold standard.
" 1879	75	22%	114	34%	?		189	56%	151	44%	340	7%	58·8d.	83,000,000	1878. Bland Act in United States.
" 1884	85	21%	98	24%	?		183	45%	228	55%	411	21%	55·5d.	95,000,000	
" 1889	110	21%	157	31%	?		267	52%	243	48%	510	24%	48·5d.	103,000,000	1890. Sherman Act in United States.
" 1894	160	22%	195	26%	31	4%	386	52%	360	48%	746	46%	42·7d.	132,000,000	1893. India closes mints.
" 1899	180	22%	128	15%	57	7%	365	44%	456	56%	821	10%	30·9d.	105,000,000	1897. Russia and Japan adopt gold
" 1904	255	30%	264	31%	−28	−3%	491	58%	351	42%	842	3%	28·3d.	99,000,000	standard.
" 1909	310	33%	402	43%	−75	−8%	637	68%	299	32%	936	11%	29·6d.	115,000,000	
" 1914	360	34%	282	26%	123	12%	765	72%	296	28%	1,061	13%	28·2d.	124,000,000	1910. Indian import duty raised to 4d. per
" 1919	250	27%	494	54%	13	1%	757	82%	166	18%	923	−13%	43·4d.	167,000,000	oz.
" 1924	245	23%	360	35%	311	30%	916	88%	124	12%	1,040	13%	43·0d.	186,000,000	
1493 to 1834	1,350	30%	1,350	30%	450	10%	3,150	70%	1,331	30%	4,481	—	65·0d.	1,215,000,000	
30 years to 1864	235	29%	493	60%	?		728	89%	86	11%	814	—	65·5d.	222,000,000	
" 1894	555	22%	783	31%	31	1%	1,369	54%	1,170	46%	2,539	212%	52·6d.	557,000,000	
" 1924	1,600	29%	1,930	34%	401	7%	3,931	70%	1,692	30%	5,623	122%	34·0d.	796,000,000	
TOTALS ...	3,740	28%	4,556	34%	882	6%	9,178	68%	4,279	32%	13,457	—	49·8d.	2,790,000,000	

(1) Europe and America. Based on Soetbeer to 1880 and Bureau of the U.S. Mint since, but with considerable assumptions by the writer in attempting to complete the figures.
(2) Net imports. Years to March 31st following. Country's own production not allowed for (Nil to 1914, 7,000,000 oz. for 1915–19 and ? 22,000,000 oz. for 1920-24).
(3) Included under fifth heading to 1889.
(4) Excluding China to 1889.
(5) Including China to 1889. Also includes large amounts for coinage for the rest of Asia (excluding India) and for Africa. Subject to this, represents amounts available for the World's coinage.
(6) To 1874 these are the figures for the quinquennia ending one year later. Soetbeer is followed to 1873 and the Bureau of the U.S. Mint since.
(7) Figures divided roughly at a guess in order to give totals from the discovery of America. In the period 1700–1830 China is said to have absorbed £90,000,000 to £100,000,000 through Canton.

TABLE III.—INDIA'S ABSORPTION OF SILVER AND GOLD.

(In millions of pounds sterling.) *(Rupees converted at average exchange for each year.)*

—	India's Absorption. Silver.(1)	India's Absorption. Gold.(2)	India's Absorption. Total Treasure.	Proportions Taken. Silver.	Proportions Taken. Gold.	Net Exports of Merchandise.	Proportion of Net Imports of Treasure to Net Exports of Merchandise.	Rate per Rupee.	Chronology.
5 years to 1839–40	9	2	11	85%	15%	(30)	(37%)	23·0*d.*	1835. Silver standard adopted with rupee of 165 gr. of pure silver.
" 1844–45	11	2	13	87%	13%	(31)	42%	22·9*d.*	1841. Mohur of 165 gr. of pure gold authorised to be received by public treasuries.
" 1849–50	3	5	8	40%	60%	(30)	27%	22·0*d.*	
" 1854–55	12	5	17	69%	31%	(40)	42%	24·0*d.*	1853. Gold declared not legal tender. Rupees unlimited legal tender. Free coinage of silver.
" 1859–60	50	16	66	76%	24%	(47)	140%	?	
" 1864–65	50	35	85	59%	41%	(90)	106%	23·9*d.*	
" 1869–70	46	24	70	66%	34%	96	73%	23·5*d.*	1871. Germany adopts gold standard.
" 1874–75	14	11	25	56%	44%	110	23%	22·6*d.*	1873. United States adopts gold standard.
" 1879–80	30	3	33	91%	9%	98	34%	20·4*d.*	
" 1884–85	25	19	44	57%	43%	119	37%	19·5*d.*	
" 1889–90	34	12	46	74%	26%	101	46%	17·1*d.*	1893. Indian mints closed.
" 1894–95	37	4	41	88%	12%	114	37%	15·5*d.*	1894. Silver import duty of 5% ad valorem imposed.
" 1899–00	18	24	42	43%	57%	105	40%	15·1*d.*	1896–97 and 1899–90. Great famines owing to failure of crops. 1899. Rupee fixed at 16*d.* after falling to 13*d.* for 1894–95. Sovereigns legal tender at Rs. 15 to £1.
" 1904–05	34	31	65	52%	48%	147	44%	16·0*d.*	
" 1909–10	54	50	104	52%	48%	160	65%	16·0*d.*	1910. Silver import duty raised to 4*d.* per oz.
" 1914–15	35	96	131	27%	73%	223	59%	16·0*d.*	1917–20. Gold importation restricted. Silver importation prohibited.
" 1919–20	107	68	175	61%	39%	317	55%	18·0*d.*	
" 1924–25	55	108	163	34%	66%	153	107%	17·4*d.*	1920. Silver import duty removed. Free gold and silver importation restored.
30 years to 1864–65	135	65	200	68%	32%	268	75%		
" 1894–95	186	73	259	72%	28%	638	41%		
" 1924–25	303	377	680	45%	55%	1,105	62%		
Totals, 90 years ...	624	515	1,139	55%	45%	2,011	57%		

(1) Net Imports.
(2) Net imports as given in trade returns (i.e., at commercial prices for the 6 years to 1924–25 when gold was at a premium), plus India's own production.

Table IV.—China's Absorption of Silver and Gold.

(*In millions of pounds sterling, converted at average exchange for each year.*)

	Net Imports (+) or Exports (–).			Proportions Taken.		Net Imports of Merchandise.	Proportion of Net Imports of Treasure to Net Imports of Merchandise.	Exchange Rate per H. tael.
	Silver.(1)	Gold.(2)	Total Treasure.	Silver.	Gold.			
5 years to 1894	+ 3·5	+ 0·1	+ 3·6	97%	3%	38·9	9%	52*d.*
" 1899	+ 7·4	– 0·1	+ 7·3	101%	– 1%	39·8	18%	37*d.*
" 1904	– 3·0	+ 6·5	+ 3·5	—	—	66·6	5%	34*d.*
" 1909	–10·0	+ 6·0	– 4·0	—	—	112·3	–4%	35½*d.*
" 1914	+14·4	+ 3·1	+17·5	82%	18%	93·5	19%	34*d.*
" 1919	+11·3	+17·6	+28·9	39%	61%	52·3	55%	52½*d.*
" 1924	+61·8	– 9·0	+52·8	117%	–17%	264·1	20%	52*d.*
Totals, 35 years ...	+85·4	+24·2	+109·6	78%	22%	667·5	16%	—

(1) Net Imports.

(2) Net imports as given in trade returns (i.e., at commercial prices for the 6 years to 1924 when gold was at a premium), plus the country's own production.

Note.—These figures are collated from the Annual Reports of the Imperial Chinese Customs. They do not include Hong Kong. Every year shows an adverse balance of trade on merchandise alone. Large remittances home made by Chinamen abroad are not included in the treasure figures.

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TABLE V.—DISTRIBUTION OF WORLD'S TOTAL GOLD PRODUCTION.

—	End of 1834.		End of 1873.		End of 1913.		End of 1924.	
	£	Proportion.	£	Proportion.	£	Proportion?.	£	Proportion.
In State Banks and Treasuries	?	?	?	? ?	945,000,000	60% 30%	1,710,000,000	81% 43%
In other banks	?	?	?	? ?	125,000,000	8% 4%	90,000,000	4% 2%
In circulation	?	?	?	? ?	500,000,000	31% 16%	? 100,000,000	5% 3%
Not traceable (including hoarding)	?	?	?	? ?	18,000,000	1% 1%	200,000,000	10% 5%
WORLD'S STOCK OF GOLD MONEY (excluding India, China and Egypt)	196,000,000	35%	587,000,000	100% 47%	1,588,000,000	100% 51%	2,100,000,000	100% 53%
Absorbed by Industrial Arts (Europe and America)	280,000,000	50%	477,000,000	— 38%	1,042,000,000	— 33%	1,241,000,000	— 31%
Absorbed by India	60,000,000	10%	158,000,000	— 13%	392,000,000	— 13%	553,000,000	— 14%
" " China and Egypt	28,000,000	5%	28,000,000	— 2%	100,000,000	— 3%	106,000,000	— 2%
World's Gold Output (from 1493)	564,000,000	100%	1,250,000,000	— 100%	3,122,000,000	— 100%	4,000,000,000	— 100%
Gold Money in the United States	—	—	22,000,000	3·8% 1·8%	392,000,000	24·7% 12·6%	935,000,000	44·5% 23·4%
" " " United Kingdom ...	—	—	*105,000,000	17·9% 8·4%	158,000,000	10·0% 5·1%	? 170,000,000	8·1% 4·2%

* Mentioned in Encyclopœdia Britannica, Vol. 16, p. 722.

TABLE VI.—DISTRIBUTION OF THE WORLD'S TOTAL SILVER PRODUCTION.

—	End of 1834.		End of 1873.		End of 1913.		End of 1924.	
	Fine ozs.	Proportion.	Fine ozs.	Proportion.	Fine ozs.	Proportion.	Fine ozs.	Proportion.
World's Stock of Silver Money (excluding India, China and Egypt)	?	?	?	?	? 1,900,000.000	17%	? 2,000,000,000	15%
Lost or not traceable*	?	?	?	?	? 2,064,000,000	18%	? 2,279,000,000	17%
	1,331,000,000	30%	1,565,000,000	27%	3,964,000,000	35%	4,279,000,000	32%
Absorbed by industrial arts (Europe and America)	1,350,000,000	30%	1,695,000,000	29%	3,170,000,000	28%	3,740,000,000	28%
Absorbed by India	1,350,000,000	30%	2,054,000,000	36%	3,636,000,000	32%	4,556,000,000	34%
Absorbed by China	450,000,000	10%	450,000,000	8%	514,000,000	5%	882,000,000	6%
World's Silver Output (from 1493)	4,481,000,000	100%	5,764,000,000	100%	11,284,000,000	100%	13,457,000,000	100%
Silver Money in the United States	—	—	5,000,000	0·1%	570,000,000	5·1%	600,000,000	4·5%
Silver Money in the United Kingdom ...	—	—	55,000,000	0·9%	100,000,000	0·9%	160,000,000	1·3%

* Including coinage for Straits Settlements, Hong Kong, Indo-China, British West Africa, other portions of Africa, etc. These countries are not included in the World's Stock of Silver Money given above. Their coinage has been heavy. India in 1895–1904 coined about 149,000,000 fine ozs. for the Straits Settlements and Hong Kong, and the amount for the following 10 years was at nearly half this rate.

TABLE VII.—GOLD PRODUCTION.

(In millions of pounds at 84/11½ per fine ounce.)

	1915.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.
Transvaal	38·6	39·5	38·3	35·8	35·4	34·7	34·5	29·8	38·9	40·7	40·8
United States	20·8	19·0	17·2	14·1	12·4	10·5	10·3	9·7	10·4	10·4	9·7
Canada	3·9	4·0	3·1	3·0	3·3	3·3	3·9	5·4	5·2	6·5	7·4
Australasia	10·2	8·3	7·4	6·1	5·5	4·7	3·8	3·9	3·8	3·5	3·0
Mexico	1·3	1·6	1·8	3·5	3·2	3·1	2·9	3·2	3·3	3·4	3·3
Rhodesia	3·9	3·9	3·5	2·7	2·5	2·3	2·5	2·8	2·8	2·7	2·5
Russia	5·4	4·6	3·7	2·5	2·3	0·2	0·2	0·6	1·1	2·4	3·1
Rest of World	12·3	12·6	11·3	11·3	10·4	10·5	9·9	10·1	10·0	10·4	10·2
Total	96·4	93·5	86·3	79·0	75·0	69·3	68·0	65·5	75·5	80·0	80·0

CONSUMPTION OF GOLD.

	1915.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.
Industrial Arts (America and Europe)	17·0	18·0	16·0	17·0	23·0	22·0	15·0	17·0	17·0	16·0	(16·0)
India (year to March 31st following)	1·3	5·0	19·6	−3·3	27·9	3·5	0·7	26·6	20·1	52·4	(27·0)
China	−1·7	2·6	2·6	0·4	11·5	−3·9	−2·2	1·1	−0·5	−0·6	—
Egypt	−0·8	−0·2	−0·1	−0·0	−0·0	0·7	0·0	0·1	1·9	1·2	—
Total Demand	15·8	25·4	38·1	14·1	62·4	22·3	13·5	44·8	38·5	69·0	43·0
Balance available for money (difference)	80·6	68·1	48·2	64·9	12·6	47·0	54·5	20·7	37·0	11·0	37·0
World's Output	96·4	93·5	86·3	79·0	75·0	69·3	68·0	65·5	75·5	80·0	80·0

WORLD'S STOCK OF GOLD MONEY.

	1915.	1916.	1917.	1918.	1919.	1920.	1921.	1922.	1923.	1924.	1925.
Total	1,736	1,804	1,852	1,917	1,930	1,977	2,031	2,052	2,089	2,100	2,137
Per capita	236*d.*	243*d.*	247*d.*	254*d.*	254*d.*	258*d.*	263*d.*	263*d.*	265*d.*	264*d.*	266*d.*

APPENDIX 83.

Supplementary statement submitted by Mr. Joseph Kitchin of the Union Corporation, Limited, London, on "Redundancy in the United States Stock of Gold Money."

This matter may be looked at in three ways:—

(1) From 1873, when the United States adopted the gold standard and had only £22,000,000 of gold money, to 1887, when its stock reached £134,000,000, the country was evidently collecting its necessary stock of gold. During the first six years of this period its currency was at a discount. From 1887 to 1895 commodity prices which commenced to fall in 1873, reached their lowest point, and the stock fell to £104,000,000. From 1895 to 1913, during which period the world's stock of gold money was advancing rapidly and commodity prices were rising strongly, gold money in the United States increased every year (except in 1909) until it reached £392,000,000. From the end of 1914 to the end of 1924, owing largely to the effect of the War, its stock increased from £371,000,000 to £935,000,000, and in 1925 the tide turned, reducing the figure to £907,000,000. At the 1895-1913 rate of increase it would now be £584,000,000 or £323,000,000 less. From 12·6 per cent. of the world's stock of gold money at the end of 1895, the United States proportion increased to 24·7 per cent. at the end of 1913. It was 22·4 per cent. at the end of 1914, 34 per cent. at the end of 1918, 28·8 per cent. at the end of 1919, and 44·5 per cent. at the end of 1924, and is now 42·4 per cent. At the 1895-1913 rate it would now be 27·4 per cent., the difference of 15 per cent. on the world's stock of £2,137,000,000 at the end of 1925 being the before-mentioned £323,000,000. This way of looking at matters tends to exaggerate the final figure, because it assumes a simple or fixed annual increase, while economic progress should advance at a compound rate requiring a rising increase in absolute amount per annum.

(2) The increase in the holding of gold money shown by the World and the United States in the 18 years to 1913 and the 12 years to 1925 respectively have been:—

—	World.	United States.
1895–1913:		
Increase in Stock of Gold Money	£827,000,000 to £1,588,000,000 or 1·92 times.	£104,000,000 to £392,000,000 or 3·77 times.
Compound rate of increase per annum.	3·7%	7·6%
1913–1925:		
Increase in Stock of Gold Money	£1,588,000,000 to £2,137,000,000 or 1·35 times.	£392,000,000 to £907,000,000 or 2·32 times.
Compound rate of increase per annum.	2·5%	7·25%

During the 18 years before the War the United States increased its stock at twice the rate of the world, and this is understandable in view of the rapid increase of wealth in the country. From 1914, owing to the operation of the Federal Reserve Bank system, it should have needed proportionately less gold, while, on the other hand, its late entry into the War increased its requirements relatively to the rest of the world. In the period 1913-1925 the world's stock increased at a lower rate than in 1895-1913 (94 per cent. of the addition to the stock going to the United States), and if consequently the United States had needed to increase its stock at say 5 per cent. per annum instead of the 7·6 per cent. of the previous 18 years, this would have meant a stock of £704,000,000 at the end of 1925, or £203,000,000 less than the actual figure.

(3) The Federal Reserve Banks are required to hold 40 per cent. of gold on lawful money against their notes and 35 per cent. of gold against their deposits, or an average on present figures of about 38 per cent. Normally, it would hold a higher proportion, probably in excess of 50 per cent. Before the War central note-issuing banks in gold standard countries normally held gold reserves to the extent of about 50 per cent. of their combined notes and deposits, and this test

can be applied to the Federal Reserve system. Figures showing the recent gold monetary position in the United States are as follows:—

U.S. TREASURY STATEMENT.

(In millions of dollars.)

—	1 Jan., 1923.	1 Jan, 1924.	1 Jan., 1925.	1 Jan., 1926.	1 March, 1926.
Gold coin and bullion held in Treasury for F.R. Banks and Agents.	2,235	2,220	1,987	1,649	1,653
Gold coin and bullion outside Treasury held by F.R. Banks and Agents.	220	278	255	290	312
Gold certificates (covered 100% in gold in Treasury) held by F.R. Banks and Agents.	405	395	538	598	621
	2,860	2,893	2,780	2,537	2,586
Gold certificates (covered 100% in gold in Treasury) in circulation.	303	582	971	1,114	1,076
Gold coin and bullion in circulation	429	415	458	424	422
Other gold held in Treasury against U.S. Notes, etc.	341	357	338	333	361
Total stock of gold coin and bullion in the United States.	3,933	4,247	4,547	4,408	4,445
Total stock of money (including silver) in circulation in the United States.	4,733	4,951	4,993	5,008	4,814
Total stock of money (including silver) in circulation in the United States, per capita.	42·81	44·22	44·03	43·62	41·84

FEDERAL RESERVE BOARD STATEMENT.

—	3 Jan., 1923.	2 Jan., 1924.	31 Dec., 1924.	30 Dec., 1925.	7 April, 1926.
F.R. Notes in actual circulation	2,411	2,245	1,862	1,835	1,653
Total deposits of Reserve Banks	2,025	2,051	2,311	2,357	2,278
Total F.R. Notes in circulation and deposits ...	4,436	4,296	4,193	4,192	3,931
Total F.R. Gold Reserves	3,049	3,084	2,937	2,704	2,783
Proportion of Gold Reserves to combined Notes and Deposits.	67·4%	71·8%	70·4%	64·5%	70·8%

The following rearrangement of these figures may be added, with a note of the probable redundancy:—

(In millions of dollars.)

—	End 1922.	End 1923.	End 1924.	End 1925.	March, 1926.
Total F.R. Notes in circulation and deposits ...	4,436	4,296	4,173	4,192	3,931
Gold Reserves required at 50%	2,218	2,148	2,086	2,096	1,965
Actual Gold reserves	3,049	3,084	2,937	2,704	2,783
Difference—apparent redundancy	831	936	851	608	818

If gold certificates in circulation (the amount of which around 1920-1922 was only $200,000,000) had been represented by F.R. Notes instead, the following figures would have resulted:—

(In millions of dollars.)

—	End 1922.	End 1923.	End 1924.	End 1925.	March. 1926.
Total F.R. Notes in circulation and deposits ...	4,436	4,296	4,173	4,192	3,931
If the Gold Certificates in circulation had been substituted by F.R. Notes.	303	582	971	1,114	1,076
The total of F.R. Notes in circulation would have been.	4,739	4,878	5,144	5,306	5,007
Gold reserves required at 50%	2,369	2,439	2,572	2,653	2,503
The actual gold reserves would have been (adding the figures for gold certificates in circulation to the actual F.R. gold reserves as above).	3,352	3,666	3,908	3,818	3,859
Difference—apparent plus dormant redundancy	983	1,227	1,336	1,165	1,356
Redundancy made dormant by putting gold certificates in circulation.	152	291	485	557	538
Level of wholesale prices of commodities in the United States (average of four indices).	157	152	158	157	? 151

This statement shows the efforts made in the United States to keep prices stable by the circulation of gold certificates covered by 100 per cent. of gold rather than Federal Reserve notes. Since the end of 1922 the aggregate of notes and gold certificates in circulation has remained comparatvely stable at $2,700,000,000 to $2,900,000,000, but the circulation of Federal Reserve notes has declined from $2,411,000,000 to $1,653,000,000, while that of gold certificates has been markedly augmented from $303,000,000 to $1,076,000,000, so that the difference between them has dropped from $2,108,000,000 at the end of 1922 to $891,000,000 at the end of 1924 and to $577,000,000 on the latest figures. This clearly shows that the authorities are attempting to make the redundant gold as ineffective as possible as regards influencing prices. Applying the 50 per cent. gold reserve ratio before mentioned to the combined notes and deposits of the Reserve Banks, the amount of redundancy of gold in the Reserve Banks—called "apparent redundancy" in the table above—is shown since 1922 to be from £125,000,000 to £192,000,000. But the total (apparent and dormant) redundancy would have been higher if it were not for the putting of gold certificates into circulation for in that case it is shown that it would have been from £202,000,000 to £279,000,000. It is, of course, to be expected that if the present policy of the Reserve Board were to be reversed the gold certificates would come back from circulation very slowly.

On the whole it may be said that while the United States has added £515,000,000 to its stock of gold money in the twelve years to 1925, only some £280,000,000 of that amount is now redundant owing to the economic progress made by the country, while by the monetary policy adopted £110,000,000 of this £280,000,000 has been rendered dormant, and only £170,000,000 is actually redundant at present. The flow of gold into the United States has stopped, and the total stock of gold money shows on the whole a declining tendency.

In a separate statement the writer has estimated that the world's stock of gold money will be £2,425,000,000 at the end of 1935. This, with the figures in the first table above and the assumption that the United States' stock will be the same in 1935 as in 1925, yields the following (the percentages are compound rates of increase per annum for the intervals) :—

End of	United States.			Rest of World.			World.		
	£			£			£		
1895 ...	104,000,000			723,000,000			827,000,000		
		7·6%			2·85%			3·7%	
1913 ...	392,000,000			1,196,000,000			1,588,000,000		
		7·25%	3·9%		0·25%	1·1%		2·5%	1·95%
1925 ...	907,000,000			1,230,000,000			2,137,000,000		
		Nil			2·15%			1·25%	
1935 ...	907,000,000			1,518,000,000			2,425,000,000		

The assumption that the United States' total will remain the same in 1935 as in 1925 is based on the idea that it will take 10 years to remove the present redundancy, and the figures arrived at seem reasonable. They show the United States, owing to its superior rate of economic progress, taking gold at twice the world rate both in 1895-1913 and in 1913-1935—in the latter period at a much decreased rate, thus accommodating itself to the slower rate of increase in the world totals—and they show the rest of the world, after taking hardly any gold on balance for 1913-1925, readjusting itself thereafter by relieving the United States of its surplus (or rather by taking the whole of the world's new gold production available for monetary purposes), and at a not excessive rate if allowance is made for the necessity of making up for the set-back caused by the War on the one hand and the impoverishment due to the War on the other.

It has already been suggested that the apparent redundancy of gold in the United States under the system of price stabilisation adopted is £170,000,000, or £280,000,000 if one includes the hidden redundancy due to circulation of gold certificates in place of notes. This would mean that, of a stock of £907,000,000 at the end of 1925, £630,000,000 was normally required which was raised to £740,000,000 by the expedient of circulating gold certificates. From £740,000,000 at the end of 1925 to £907,000,000 still at the end of 1935 is an increase of 2·05 per cent. per annum and from £630,000,000 to £907,000,000 is an increase of 3·7 per cent. per annum. An average of these rates—say 2·5 per cent., taking twice the World's increase for the period as before—would raise £630,000,000 at the end of 1925 to £835,000,000 at the end of 1935, leaving £70,000,000 to represent the apparent and dormant redundancy, from which, to arrive at the apparent redundancy as shown by Federal Reserve Board figures, must be deducted half the amount of gold certificates then in circulation. The raising of the £630,000,000 to £907,000,000 at 2·5 per cent. per annum—i.e., to allow fully for both apparent and dormant redundancy on the assumption that all the gold certificates will be taken out of circulation, an unlikely event would take until 1940. If the present figure of the circulation of gold certificates remains unchanged for an indefinite period it would take until 1934 to raise the £740,000,000 to £907,000,000 at 2·5 per cent. per annum. Taking such a rate as 2·5 per cent. allows for the fall in commodity prices which the writer expects to take place.

The policy of the Reserve Board will apparently be to maintain and increase the circulation of gold certificates so long as there is any apparent redundancy, and as that disappears (as judged by Federal Reserve figures), to reduce their circulation until more normal figures are reached. How far this process will go on depends upon the policy adopted. The United States may also continue to loose gold—it lost £21,000,000 in the fourteen months to the end of February last—and this would expedite the elimination of the redundancy. If the Federal Reserve Board's ratio of gold reserves to liabilities is permanently kept above 50 per cent., this would also reduce the redundancy. It therefore seems that the redundancy should disappear somewhere between 1930 and 1940, with a strong probability of its vanishing well within 10 years from the present time.

End of	*World's stock of gold money	†Proportion in United States.		End of	*World's stock of gold money	†Proportion in United States.		End of	*World's stock of gold money	†Proportion in United States.	
	Millions of pounds.	Millions of pounds.	Per cent.		Millions of pounds.	Millions of pounds.	Per cent.		Millions of pounds.	Millions of pounds.	Per cent.
1873	586	22‡	3·7	1892	753	120	15·9	1911	1,497	370	24·7
1874	594	24‡	4·0	1893	774	122	15·8	1912	1,537	387	25·2
1875	601	18‡	3·0	1894	801	111	13·8	1913	1,588	392	24·7
1876	610	20‡	3·3	1895	827	104	12·6	1914	1,656	371	22·4
1877	621	27‡	4·3	1896	852	121	14·2	1915	1,736	473	27·2
1878	634	36‡	5·7	1897	882	131	14·9	1916	1,804	589	32·6
1879	639	62	9·7	1898	921	171	18·6	1917	1,852	626	33·8
1880	643	82	12·8	1899	957	185	19·3	1918	1,917	652	34·0
1881	649	100	15·4	1900	989	204	20·6	1919	1,930	556	28·8
1882	653	99	15·2	1901	1,022	216	21·1	1920	1,977	605	30·6
1883	657	107	16·3	1902	1,056	230	21·8	1921	2,031	753	37·0
1884	662	108	16·3	1903	1,093	245	22·4	1922	2,052	809	39·4
1885	670	115	17·2	1904	1,136	250	22·0	1923	2,089	874	41·8
1886	681	121	17·8	1905	1,196	265	22·2	1924	2,100	935	44·5
1887	690	134	19·4	1906	1,209	300	24·2	1925	2,137	907	42·4
1888	701	134	19·1	1907	1,286	332	25·8				
1889	710	131	18·5	1908	1,354	341	25·2	1930	? 2,305		
1890	720	133	18·5	1909	1,409	337	23·9				
1891	733	129	17·6	1910	1,454	352	24·2	1935	? 2,425		

* The writer's computation, excluding India, China and Egypt. † From U.S. Mint Reports. ‡ At June 30.

APPENDIX 84.

Letter dated the 30th March 1926, from the Manager, Chartered Bank of India, Australia and China, on behalf of the British Exchange Banks.

We beg to acknowledge receipt of your letter of the 9th instant, with enclosures as specified, and beg to say that Mr. Charles Nicoll, General Manager of the National Bank of India, Limited, will be pleased to attend at the India Office at 10.30 a.m. on the 14th proximo, as representing the British Exchange Banks, and give evidence within the scope as outlined hereunder.

The questionnaires submitted have been perused with interest, and as they cover a very extended field, we elect to confine ourselves to the following heads:—

1. *Gold currency.*—We are not in favour of the immediate introduction of a gold currency into India.

2. *A gold standard.*—We are in favour of a gold standard, i.e. that it is put on the Statute Book that the Government is bound to buy gold at a rate to be fixed upon (this will depend on the basis at which the rupee is fixed) and to sell gold for export (or the equivalent in gold funds) at a rate to be arrived at as above. We emphasise the Government because we are of opinion that for the present there is no other authority to whom those duties could legitimately be delegated.

3. *Council Bills.*—Only to be sold to the actual extent of Government published Budget requirements, and should be put up for public tender in India and London. The sale of council bills may be undertaken by the Imperial Bank as Agents of the Government.

4. *Currency.*—No additional currency should be issued that is not covered by the actual tender of gold coin or bullion in India and/or in London earmarked for shipment to India.

5. *Currency Notes.*—In our opinion all currency notes should remain Government of India notes and the management of the issue remain in the hands of the Government.

6. *Rupees.*—The legal tender of rupees not to be disturbed.

7. *Stabilisation of the Rupee.*—We consider the stabilisation of the rupee is desirable, and that the time has arrived when it is practicable. The present position is unsatisfactory, owing to the uncertainty, which reacts adversely on trade.

As to the basis, we are of opinion that the advantages attending the adoption of the rate of 1*s.* 6*d.*, which has been the working rate for some time past, outweigh the disadvantages, and consequently we see no objection to stabilising on the basis of 1*s.* 6*d.*, in preference to the old basis of 1*s.* 4*d.*

We do not think that fixing the rupee at, say 1*s.* 6*d.*, once it is accepted as an accomplished fact, will affect the demand for gold in India to any appreciable extent.

8. *Gold reserves.*—In our opinion, the fact must not be lost sight of that there is an important section of the Indian community who have at heart the wish for a gold currency, and although the more moderate of this line of thought recognise that the present time is not opportune, still the idea exists, and as time goes on it may gather force sufficient to call for the Indian Government giving the matter serious attention. It is with this end in view, therefore, that we advocate a policy which will increase the gold reserves, so that when the day comes (it may be ten or more years hence) India's gold position will have been steadily improving all the time, which will enable her to tackle the problem when it does come up again upon a surer basis.

Also, it will give a measure of comfort to the gold currency section to see that something is being done.

NOTE.—The following is a list of the British Exchange Banks party to the above:—

The Chartered Bank of India, Australia, and China.
The National Bank of India, Limited.
The Hong Kong and Shanghai Banking Corporation.
The Mercantile Bank of India, Limited.
Lloyd's Bank, Limited, Eastern Department.
The P. and O. Banking Corporation, Limited.
The Eastern Bank, Limited.

APPENDIX 85.

Statement of evidence submitted by Sir Stanley Reed, K.B.E., Director of the Bombay Electric Supply and Tramways Company, Limited.

(1) The time is ripe for a solution of the problems of Indian currency and exchange by measures for the stabilisation of the rupee.

(2) The rupee should be stabilised on a gold standard.

The ratio at which this stabilisation should be effected must be considered in relation to the history of the Indian currency. The ratio suggested by the Herschell Committee in 1893 was 1*s.* 4*d.* The ratio proposed by the Fowler Committee in 1898 and adopted by the Government of India was 1*s.* 4*d.* That ratio was the established legal standard of money payments from 1898 until the disturbances caused by the war; when these adjusted themselves the Indian exchange fell to approximately 1*s.* 4*d.*

The established legal standard of money payments should only be disturbed under stress of overwhelming necessity. Round it an immense volume of contractual obligations has been built up. No evidence has been produced showing that any supreme need for the alteration of this standard has arisen, or that any insurmountable difficulty exists to prevent its restoration. Whilst no special sanctity establishes to a ratio as a ratio, the standard for money payments should be, and usually is, regarded as less open to repeal or modification than perhaps any other legislative act.

On this general principle, that the established legal standard of money payments should not be disturbed, no departure from the goal of Indian currency policy, from 1893 until the financial disturbances of the war, is warranted, except on proof of overwhelming necessity or evidence that it cannot be maintained.

(4) The gold exchange standard practised before the war should be abandoned for a definite gold standard, aiming at the ultimate establishment of a gold currency, if when that stage is reached opinion in India demands it.

The Gold Standard Reserve should be located in India and held chiefly in gold.

(5) The note issue is efficiently managed by the Government of India through the present agency. That system should not lightly be disturbed. If for any special reason it is desired to bring the note issue more directly under control in India, then it should be vested in the Imperial Bank of India, as an entirely separate department of the Bank, and under conditions which will not admit of any considerable departure from present practice.

Notes of small value, such as the one-rupee note, have many advantages. They are popular; they form a line of defence against any manipulation of the silver market in face of a demand for the coining of rupees. They should, therefore, be retained, if only on a limited scale, so that people may be habituated to their use.

(7) The remittance operations of the Government of India should be conducted by the Imperial Bank of India, through the purchase of sterling in India, and limited to meeting the Home charges of the Government of India.

(9) Any silver required by the Government of India should be purchased by open tender in Bombay.

APPENDIX 86.

Statement of evidence submitted by Mr. George E. Roberts, Vice-President, National City Bank of New York, and formerly Director of the United States Mint.

1. The bankers of the United States, myself included, are interested in the work of this Commission as preparatory to the re-establishment of the gold standard in India on a definite and permanent basis. We believe that this is highly desirable from the standpoint of the people of India and as a part of the general movement for the re-establishment of the gold standard throughout the world as the basis of trade and financial relations. I need not dwell upon the benefits to be gained by all countries from the restoration of a common standard of value—the experiences of the last 12 years have afforded ample demonstration of the evils resulting from unstable currencies and exchanges. In the United States it has happened that we have had no difficulty in maintaining our currency at par with gold, but we have seen that the

full advantages of the gold standard cannot be enjoyed by one country alone. We have found that even our internal prices and the prosperity of all our industries were affected by the loss of a stable relationship between our monetary system and the systems of other countries.

2. We are interested, therefore, in the reconstruction of the universal gold system as something generally desirable; but, since this means demands for gold from many countries, we are interested also that these demands shall not interfere one with another or seriously affect credit conditions in the countries which are expected to supply gold. I am old enough to remember that 30 or 40 years ago there was much talk about a "scramble" for gold and of falling prices commonly attributed to a scarcity of gold. That situation was changed by a great increase in gold production. Through the development of the South African and other goldfields the banking reserves of the world were replenished, and from about 1897 world prices were rising until the outbreak of the war, after which the inflation of credit became the dominant factor. The rise of mining costs then had a tendency to curtail gold production, particularly in countries like the United States, where gold had to be sold at the mint price as before the war, and the world's output declined from a value of about £96,400,000 sterling in 1915 to about £69,300,000 in 1919 and £65,500,000 in 1922, the low figure of the latter year being due in part to a miners' strike in the Transvaal. Since then the Transvaal has been quite successful in reducing costs and has completely regained its pre-war rate of production, but other important fields, particularly in the United States and Australia, have not been so successful. In 1924 the world's output was about £80,000,000 sterling, and that of 1925 was perhaps slightly higher. The world's production therefore has recovered about one-half of the decline occasioned by the war, but is about £15,000,000 below the production of 1915. I am inclined to the opinion that the prospective supply of new gold is large enough to permit the general re-establishment of the gold standard without serious disturbance to prices, provided possible economies in its use are effected, and the new stocks wanted are acquired without too much disturbance of existing stocks already in use as the basis of credit. These, however, are necessary qualifications, and it is especially important that the new demands shall be satisfied from current production.

3. The war caused an enormous expansion of credit and a great displacement of gold stocks. The gold reserves of the banks of issue and Government conversion funds have been increased from approximately 5½ billions of dollars, or roughly £1,100,000,000 sterling, to approximately £1,900,000,000, or a little above 70 per cent. This is an increase somewhat greater than the rise of the general price level as it stands to-day, but the banks are carrying unusual amounts of Government paper as compared with pre-war days. It must be considered also that the increase in gold reserves has been by no means all from the mines, but largely by the accumulation of coin that had been in circulation. Moreover, this increase in the gold reserves means that larger additions to the reserves will be required in the future to maintain a percentage increase corresponding to the growth of trade. Thus a 2 per cent. annual increase upon £1,000,000,000 of reserves would call for £20,000,000 of new gold, while a 2 per cent. increase upon £2,000,000,000 of reserves will require £40,000,000 of new gold. I am not saying that a 2 per cent. annual increase is required, but I am pointing out that if the price level is to be maintained at approximately 50 per cent. above the pre-war level, larger gold reserves will be required in the future and economy in the use of gold will be necessary. If there should be an expansion of business over the world and at the same time a general replacement of gold coin into circulation, the gold reserves probably would not be sufficient to supply the amount of credit necessary to maintain the present price level. In my opinion it would be a mistake at this time to afford facilities anywhere for gold to be absorbed into circulation.

4. The distribution of gold stocks at this time is very uneven. As a result of war and revolution the great reserves of Russia (which aggregated about £160,000,000) have been scattered. The reserves of the Austro-Hungarian Bank (which were about £50,000,000 sterling) were much reduced during the war, and what was left finally distributed to the succession States. The reserves of the German Reichsbank were greatly reduced following the war, but within the past year have been restored to approximately their pre-war strength. This does not, however, fully restore the pre-war monetary and credit situation, as before the war a large amount of gold coin was in circulation which must now be replaced by Reichsbank notes, thus increasing the charge on the gold reserves. Since 1913, excepting Belgium, France, and Portugal,

the gold reserves of Western Europe have been largely increased. This is true also of the reserves of Switzerland, but those of the other countries of Central, Eastern and South-eastern Europe have been reduced. Those of Italy have been reduced by more than 20 per cent.

5. Gold is the most liquid form of capital, the form most suitable for use as the basis of commercial credits; and it is evident, from the high bank rates now prevailing throughout Central and Eastern Europe, that credit is very scarce throughout that region. Gold is needed in all those countries to permit credit expansion, to lower interest charges, and to stimulate a revival of trade and industry.

6. About a year ago the Bank of England resumed gold payments, accompanied by the Netherlands Bank, and this action was hailed as possibly inaugurating a general return to the gold basis throughout Europe. The results have been in some degree disappointing, although not wholly so. Poland attempted to establish her currency on a gold basis and obtained a loan in America, but the conditions were too unfavourable, and the new currency has suffered a heavy depreciation. Belgium has sought to do the same, but has not been able as yet to carry out her plans, and her currency has relapsed. She will need a substantial foreign loan to achieve success. The currency of France has suffered further depreciation during the year. She does not need to increase her gold reserves at home, but she will need credits outside which will be a charge upon the reserves of the countries granting them. The Chervonetz currency of Russia, issued by the State Bank on a gold basis, and said to be independent of the Government finances, is now reported as suffering depreciation. If and when Russia comes back into the world of business (as it is to be hoped she will without long delay) she will need important help from outside in the establishment of a stable currency.

7. The Bank of England has lost approximately £9,600,000 since the resumption of gold payments, and the management feels it prudent at this time to maintain a discount rate which is somewhat above the ordinary rate in pre-war times, and to that extent must be regarded a burden upon the industries of the country at a time when they are needing to have all conditions as favourable as possible.

8. The Bank of the Netherlands, which resumed gold payments coincidently with the Bank of England, also has lost gold during the year to the extent of about £5,000,000. Switzerland, which is on a free gold basis, has lost about £1,500,000 during the past year. Sweden, also on a gold basis, has lost a small amount of the metal during the year.

9. On the other hand, Hungary has successfully re-established a new currency on a gold basis by the aid of a foreign loan, and Czecho-Slovakia, with similar assistance, has established a national Bank of issue with every prospect of being able to maintain her currency on the gold basis. Germany, by means of the Dawes plan loan and extensive borrowing by industrial and municipal corporations, has increased the gold stock of the Reichsbank by about £43,000,000, of which £17,000,000 was acquired in 1925.

10. The United States lost about $134,000,000 during the year 1925.

11. It is evident that the movements of gold during 1925, and down to this time, have been on the whole away from the chief financial centres and to what may be called the outlying countries. India took about £43,000,000 sterling during the calendar year 1925, which, however, refers to net imports and not to gain in banking reserves. Australia and New Zealand reserves increased £13,000,000 sterling; Java gained about £4,000,000, Canada £3,500,000, Poland £1,200,000, and numerous countries such as Italy, Hungary, Roumania, Yugo-Slavia, Bulgaria, Austria and Belgium gained small amounts.

12. This movement away from the chief financial centres is nothing to complain of. It is all right and illustrates the part which they play in the ultimate and inevitable distribution, but also illustrates the general interest in having the centres kept strong to meet the demands from all quarters.

13. Whatever loans are required for the rehabilitation of monetary systems naturally must be made in the countries which have surplus capital for investment abroad, and banking reserves must exist there to meet the demands which such loans make.

14. There are only three countries at the present time which are in a position to participate to any considerable extent in foreign loans. They are Great Britain, Holland, and the United States.

15. Great Britain by reason of past experience and relationships, is the natural leader in international financing, particularly in behalf of any of her Dominions, excepting possibly Canada. I have already referred to the position and present discount rate of the Bank of England. I would not even suggest the possibility of Great Britain's again suspending gold payments, for I do not think the world can afford to have that occur. It would be a world-wide calamity. The Bank of England must maintain gold payments at any cost, as the centre and mainstay of the movement to accomplish world-wide resumption, but a discount rate which is a restriction upon British commerce would greatly hamper the Bank in its co-operation to that general purpose.

16. Holland is able to co-operate, and always has shown a disposition to do so, but cannot act alone upon large undertakings.

17. The United States has gained the greater part of the increase in gold reserves since 1913, the net increase in the holdings of the Treasury and banks having been nearly $2,500,000,000 (£500,000,000) or about 60 per cent. of the world's increase. It has been a common assumption that the United States has a great surplus of gold, and even was in danger of being smothered by it or compelled by the natural processes of inflation to give up a large part of it. However, the United States is a big country and has large digestive capacity. It is a mistake to suppose that the United States has any considerable excess of gold reserves at this time. At the present price level and with the present volume of credit outstanding, the reserves of the United States are no greater than the financial authorities of the country deem reasonable, conservative and desirable.

18. In July 1914 the gold holdings of the Treasury and banks equalled about 7 per cent. of the aggregate amount of credit currency in circulation together with the net individual deposits of the banks. At this time they do not exceed 8 per cent. A similar calculation for Great Britain shows a net reserve of about 6·5 per cent. The percentage is higher in the United States than in Great Britain, but, in our opinion, there are sound reasons why this should be. The United States is of great territorial expanse and no such concentration of banking control exists there as in Great Britain. It has a great number of small banking institutions which look to the reserve banks for support. The country has had several unpleasant experiences in the past with general bank panics, the one in 1907 causing an almost complete suspension of cash payments throughout the country. This was before the establishment of the reserve system, but individual bank failures have been not infrequent in the last five years.

19. The reserves are divided among 12 reserve institutions. The reserve percentages of the reserve banks are high, but they are calculated upon the liabilities of the reserve banks alone, and these banks do not participate in the general banking business of the country. It must be considered that these reserves are practically the only reserves for the entire banking system.

20. Moreover, it has to be considered that the central reserve system is comparatively new with us, and in view of the small participation of the reserve banks in the total banking business it is not altogether certain to what extent they will be able to control the banking situation.

21. In view of the unsettled conditions in world trade and finance still existing, we do not feel that present reserves in the United States are excessive.

22. I have thus gone over the general situation preparatory to expressing my opinion of the proposal for establishing the full gold standard system in India, as outlined in the plan which has been handed to me by your Chairman. Whatever opinions I express are based upon this plan and the estimates which are made therein. I do not feel that I have sufficient knowledge of conditions in India to express an independent opinion upon the amount of gold required or of the amount of silver which will have to be taken from the public and disposed of.

23. Accepting the estimate that £103,000,000 sterling of gold will be required over and above the usual imports of past years which have been absorbed for ornaments and other private purposes, and that approximately £50,000,000 of this will be required within the first year, I am of the opinion that the plan will subject the financial world to a strain which ought to be avoided, and I see no reason why it may not be avoided. It appears that after supplying the demand for the arts and the amount which went to the outlying or non-lending countries, none of the new

gold production of last year was available to swell the reserves of the lending countries. In fact, we know that these countries all suffered losses from their reserves in the past year. Evidently a special call for £50,000,000 sterling, or approximately $250,000,000, could not be met without being drawn almost wholly from their reserves, which would necessitate drawing in their resources and curtailing credit both at home and abroad.

24. Gold obtained by means of a loan will not necessarily come from the country or countries in which the loan is placed or in the same proportions. The movements of gold are determined by many conditions. If, for instance, a loan was placed in the United States, it might be advantageous to use the credit there to buy gold in London or elsewhere; or if the gold was originally taken from the United States the effects there might cause Americans to withdraw capital from other countries. The financial world is so closely related that wherever the loan is placed or the gold obtained the effects will be felt in all countries.

25. It would be very unfortunate at this time to have a forced contraction of credit anywhere. It would increase interest rates: but this would not be the worst of it, because the very purpose of increasing rates would be to force a curtailment of applications for capital. It would tend to increase unemployment and to lower the general price level; and, while there are good reasons for regretting the great rise of prices occasioned by the war, and the injustice and hardship thus inflicted upon many people, it is too late to remedy all that now. The high price level has been maintained so long, and such a vast body of indebtedness has been created upon that basis, that to force adjustment to a lower level would repeat all those evils with the added danger of protracted industrial depression and widespread social disturbance.

26. India necessarily has a common interest with other countries in the maintenance of general prosperity. She is a large exporter of products, mainly raw materials of industry, the prices of which are affected by the general state of industry over the world. The experience of the last five years has been that in any general decline of prices, raw materials and agricultural products have fallen faster and farther than manufactured goods. I know that this has been the case in the United States, and my information is that it has been true in India and elsewhere. It may be accepted as a general rule, resulting from the fact that the manufacturing industries are highly organised and resist wage and price reductions while the rural populations are unable to do so.

27. I do not believe that a gold circulation is essential to the maintenance of the gold standard in India with all the benefits that go with it anywhere. The essential thing is that the currency in circulation, and which the people receive in payment for wages and products, shall have a stable relation to gold and be readily convertible into gold for all the foreign payments they wish to make.

28. The fact is that in all the advanced countries the trend is away from the use of gold as a common medium of exchange, and even away from paper money for payments of any size, to the use of bank checks. For pocket change, wages, and retail trade, a token currency answers every purpose. Gold is too valuable for use in hand-to-hand payments, to be kept in the pockets or hoarded by millions of people in any country. It is a waste of capital to use it in that way. It is a backward rather than a forward step to provide for gold coins in circulation.

29. I do not believe that the countries of Europe ever will go back to the common use of coins. In the United States the use of gold coins continued for many years in the Pacific Coast States, because gold was one of the products of those States, the people were accustomed to handling the coins, and were reluctant to change their habits. Since the war, however, gold has gone generally out of circulation even there, and a gold coin has become a rarity in any part of the United States. More and more our people are making their payments through the banks.

30. I am aware that with the mass of the people of India payments are too small for the use of checks, but I should think that this would be true also as to gold coins.

31. I hesitate to express my opinion about matters with which I have so little personal knowledge as conditions in India. I know that it is a country in which changes in long-established customs take place slowly, but I am profoundly impressed that no country is in a position to effect so rapid a betterment in social conditions as India might accomplish by the development of a modern banking system. If the capital held unproductively in that country could be gathered

together and invested for the development of industry, the wealth of India would rapidly increase: the incomes of all the people would increase, and the country would enter upon a new era of general prosperity.

32. I do not assume for a moment that I am advancing an idea that is new in India. On the contrary, I have been moved to say what I have by knowledge of the fact that the Imperial Bank of India now has 100 branches in operation. I hope the results will afford encouragement for opening many more, and that the services they will render will gradually bring about a change through which the wealth that they win by their constantly accruing trade balances, instead of being buried in idle hands, may be used to provide them with a more abundant supply of the comforts of life.

33. The growth of banking facilities seems to me the hopeful line of development for India, and to properly take precedence over an increase of facilities for the widespread distribution of gold coin.

34. I would not suggest that the interests of India be sacrificed in any way for the benefit of the rest of the world, but I am impressed that in the present situation the problem of restoring the world to the gold basis is dependent for success largely upon India, and I am sure that success will serve the interests of India as well as those of the other countries.

The Redemption and Sale of Silver.

35. I now come to the part of the plan which deals with the disposition of about 200 crores of rupees, or approximately 687 million fine ounces of silver, for the double purpose (as I understand) of eliminating rupees which it is thought will be redundant as a circulating medium under the new system and of obtaining gold for the reserves. This will be regarded in the United States and all silver-producing countries as a very disturbing proposal.

36. The silver question has been a very live question in the United States for a long time: for many years it was an acute political question. This was not due entirely or even mainly to the fact that silver-mining was an important industry in the country, but largely to the fact that the monetary system had been, nominally at least, bimetallic from the foundation of the Government, and that popular opinion inclined to the view that the demonetisation of silver tended to lower the general price level, and to operate to the disadvantage of a debtor country and the debtor class generally.

37. All political parties for a time were more or less committed to the view that bimetallism should be maintained, and both of the leading parties participated in the legislation under which approximately 400,000,000 ounces of silver were purchased by the Treasury, from 1878 to 1893, and coined into dollar pieces of unlimited legal tender on Government account. Those purchases have seemed to us to aggregate a large amount, but it does not sound so large in comparison with this proposal for India to sell 687 million ounces.

38. This silver-purchase policy was for the purpose of maintaining the value of silver bullion with the view to the re-establishment of full bimetallism.

39. The increasing production of gold answered the principal argument on behalf of bimetallism, and gradually the subject ceased to be a political issue. However, people are tenacious of political doctrines to which they have adhered, and with many of our people there has remained a strong sentimental interest in silver to this day.

40. As evidence of this I would point to what is known as the Pittman Act, passed in 1918, under which several hundred million silver dollars held in the Treasury were authorised to be melted and sold to the British Government or to our own importers, as a means of making remittances to India at a time when exchange was very difficult to obtain. The object for which that silver was purchased and those dollar pieces had been coined had been long since abandoned. The coins represented an unavailable asset in the Treasury which, from the point of view of Government finance alone, naturally would have been disposed of, but the "spell" of the old purpose, together with the appeals of the mining industry, which urged that sales would demoralise the industry, were sufficiently strong to secure the incorporation into the Pittman Act of a provision requiring that all of the bullion resulting from the melting of these coins should be repurchased in the event of silver's falling to $1 per ounce, and recoined into dollar pieces. All of it has been now repurchased.

41. I think this background of silver history is necessary in order to understand just how a considerable section of the American people will react to this proposition to sell 685,000,000 ounces of Indian silver coins with a view to completing the

demonetisation of silver in India. It will be regarded as the finishing act in the demonetisation of silver in the country which has afforded the greatest market for it in the past.

42. It goes without saying that the silver-producing industry will hear of this proposal with dismay. The total production of silver in the world is now at the rate of about 240,000,000 fine ounces per year, of which India has been accustomed to take about one-third, and in the last three years has taken close to 100,000,000 ounces per year. Of the world's production the United States contributes about one-fourth, the figures for the last two years being about 65,000,000 ounces each, and the United States, Canada, and Mexico contribute approximately 73 per cent.

43. What is to be done with an annual production of 240,000,000 ounces of silver when the country which has been taking 100,000,000 ounces of it drops out as a buyer, and becomes a seller on a large scale?

44. I think this question expresses what the natural reaction will be, although I am not clear that the situation would be quite so bad as it indicates, for I suppose that the demand for silver for ornaments would continue upon some scale, and that eventually there would be some use of silver for subsidiary coins. It would seem probable, however, that confidence in silver as a store of value, and respect for it as one of the precious metals, would be more or less shaken, and that private purchases would be affected thereby.

45. At best the proposition is certain to be regarded by the mining industry with very great alarm, and, if approved by this Commission, to have a very serious effect upon the value of investments aggregating hundreds of millions of dollars.

46. Even if sales by India abroad be left out of the account, and these 687,000,000 ozs. should be simply held to be gradually absorbed by home consumption, it is difficult to see how the current production could be disposed of outside of India. China is the next largest purchaser, but a heavy fall in the value of silver would work serious derangement in both the internal and external trade of that country.

47. The purchases of silver by Governments for coinage purposes always have represented the principal consumption, but they would not be increased in any important degree by a lower price.

48. It should be noted that there has been a pronounced tendency amongst Governments in recent years to lower the fineness of their silver coins for the purpose of cheapening the cost. Thus the British Government has lowered the fineness of its silver coins to 50 per cent. It seems quite probable that this practice will extend farther. In other cases nickel has been substituted for silver as in the case of some of the coins of France. These developments discourage the hope that the demand for coinage purposes will increase.

49. The cost of the silver used for table-ware and ornamental purposes is subordinate to the labour factor in the cost of manufacture, so that while a lowering of the price of the metal might stimulate such use in some degree, price reductions to consumers would not be proportionate to reductions in the price of silver bullion.

50. When the production of any commodity is in excess of the demand there can be no relief until the price falls to the point where diminishing production and increasing consumption bring supply and demand into equilibrium. It looks in this case as though the adjustment would have to be mainly on the side of supply.

51. The statement of the plan makes an estimate that the price obtained may be expected to be not less than 24*d.* per standard ounce. The market price in London this week for spot silver has ranged from $29\frac{1}{4}$*d.* to $29\frac{3}{4}$*d.* I do not know that silver for sale in India for export would bring more than in London. This would contemplate a fall of about 6*d.* as the result of the announcement of the plan and the actual sales. It seems to me that this is a small decline to expect under the circumstances. The first big break in silver occurred in the early seventies of the last century, when Germany and several other countries were demonetising it as standard money. Germany sold in all about 85,000,000 fine ounces from 1873 to 1879 and obtained $59\frac{5}{16}$*d.* in the first year and 50*d.* in the last, a drop of $9\frac{5}{16}$*d.* in the six years. It may be added that the German Government got better than the lowest prices in these years: the lowest price recorded on the London market in that period was $46\frac{3}{4}$*d.* in 1876, which was a drop of 13*d.* in three years.

52. The next decline in silver occurred in the 12-year period following 1890. About the latter year agitation began for closing the Indian Mints to free coinage. The

highest price for silver in 1890 was $54\frac{5}{8}d.$ and the lowest $47\frac{3}{4}d.$, a difference of nearly $7d.$ In 1892 the high was $43\frac{3}{4}d.$ and the low $37\frac{1}{8}d.$; in 1893 when the Mints were closed the high was $38\frac{3}{4}d.$ and the low $30d.$; in 1894 the high was $31\frac{3}{4}d.$ and the low $27d.$; in 1897 the high was $27\frac{13}{16}d.$, and the low $23\frac{5}{8}d.$; and in 1902 the high was $26\frac{1}{16}d.$ and the low $21\frac{11}{16}d.$ Thus in three years the price fell from $54d.$ to $27d.$, exactly one-half, and before it stopped falling it got under $22d.$, which was $2d.$ below the price named as the minimum to be realised on the sales under this plan.

53. There was no talk of selling silver out of India at that time; simply a fear that the importations might be reduced. As a matter of fact the net importations of silver into India since 1893 have been larger on the average than before that year, but instead of the coinage being free or on private account it has been on Government account.

54. I would also call attention to the fact that this great decline in the price of silver did not cause any falling off in production. The world's production of silver in 1892 was 153,000,000 ounces, and it has not been so low as that in any year since.

55. Silver sold below $24d.$ not only in the years I have named, but in 1905, 1909, 1910, 1911, 1914, and 1915; in all, 10 years out of the last 25. I am unable, therefore, to accept the opinion that $24d.$ is a price that will reduce production to the point where supply and demand will find an equilibrium with India no longer a purchaser in the markets.

56. Unquestionably the lower prices of silver which have prevailed since 1890, excepting in a few years of war disturbance, have closed many silver mines, but others have continued to operate at a profit. Mining and treatment costs have been reduced in the last 30 years; rich mines have continued to produce, and new ones have been discovered; but one of the chief reasons for the increased production of silver, despite the lower prices, is that a large part of the production is now in conjunction with the production of other metals; in fact, silver is largely a by-product of mining operations in which copper, lead, and zinc are the chief products and bear the larger part of the expense.

57. The report of the Director of the Mint of the United States for the fiscal year ended 30th June 1925 (page 33) contains a table furnished by the Bureau of Mines, which gives the source of the silver production of the United States in the calendar year 1924. It accounts for over 64,000,000 fine ounces, of which 23,000,000 were recovered from copper ores, 20,500,000 from lead ores, and 20,000,000 from what are called dry and siliceous ores, being those from which nothing is recovered but silver. A small amount of silver is obtained also in conjunction with gold.

58. According to these figures less than one-third of the silver output of the United States in that year was obtained from mining operations in which the chief product was silver. The same is largely true of silver production in Mexico and other countries.

59. It is evident that silver production from this class of mines is not likely to be as readily responsive to changes in the price of silver as production from what are called straight silver mines. The net profit of operating these mines depends upon the combined results, and upon the prices of copper and lead and zinc as well as the price of silver.

60. It is a very difficult matter to say at what figure the price of silver will be low enough to close an important proportion of these mines. There are men sufficiently familiar with such properties to give opinion worth having, but I would not attempt to give an opinion other than that I think the figure would be considerably below $24d.$

61. It is to be considered that mining properties are not abandoned whenever their operations show a deficit according to approved book-keeping methods, which include charges for depletion of mineral, depreciation of equipment, bond interest, &c. Under the conditions here presented mines will be operative as long as they pay operating costs, and possibly, in some instances, even longer, in the hope of a favourable turn with regard to some of the factors. If there is no hope as to silver there may be hope as to copper or lead. With silver now under $30d.$ I do not think a drop to $24d.$ would reduce production enough to off-set the withdrawal of India from the markets.

62. The fact that so much uncertainty attaches to this feature of the plan makes it very important, as I view it, that the best expert opinion on the subject be had by the Commission before coming to a conclusion. If silver should fall to $15d.$, instead

of 24*d*., it is evident not only that the sales of redeemed silver would yield much less for the replenishment of the reserves, but that the decline would signify a heavy depreciation upon all the silver hoards of India. I leave it to others more familiar with the psychology and habits of the Indian people to estimate what effects there might be in the way of inducing a more rapid conversion of silver into gold than has been contemplated, or of general discontent with the new system, or of influencing the people to the purchase and hoarding of gold instead of silver. With what we know of human nature in the United States we would expect developments on all these lines.

63. For reasons which I have outlined in the first part of my discussion I would consider the last-named possibility one of great importance to the world at this time. The people of India have been buyers of silver on a great scale for a long time. They have been accustomed to esteem it as one of the precious metals, and it would seem that the reduction of the rupee to be a subsidiary coin and a further serious decline in the price of bullion naturally would have the effect of lessening the demand for all the purposes for which silver has been wanted in India, and of increasing the demand for gold. Furthermore, this probably would be true as to many uses the world over. I do not think the world can afford to encourage or satisfy such an increase in the non-monetary uses of gold at this time.

64. The one certainty as to the price of silver in the event of this plan's adoption would seem to be that it must fall low enough to effect the curtailment of production necessary to bring supply and demand into the balanced relation. I do not see how this can occur without closing an important proportion of the properties in which silver is produced in conjunction with the other metals, and if this result is forced the disaster throughout the mining industry will be enormous.

65. Although silver is a minor factor in the income of this class of properties, my understanding is that it supplies all of the profit and bears a part of the expense. Whether the required curtailment would be accomplished at 20*d*. or 15*d*. is not important if it be true that this class of mines must be largely closed before the decline can cease. This would mean a very great destruction of property values, a grave displacement of labour, and probably higher prices to consumers the world over for copper, lead and zinc.

66. The latter possibility has various phases. A general cessation of operations by the silver-lead and silver-copper companies would force up the price of lead and copper to a point where increased production would be induced from some source, and some of the closed properties might be enabled to resume operations at even lower returns for silver than have been suggested in this discussion. This would put more silver on the market, and thus readjustment might go on until what in the past have been considered the humbler metals bore practically all the cost of producing silver. On the other hand, there is the possibility that low cost copper producers in South America and Africa might expand their operations at the expense of their North American competitors, many of whom have been able to hold their own in the past largely by reason of the silver contents of their ores.

67. The value at this time of the mining properties in the United States which would be put in serious jeopardy by this plan probably is not less than $500,000,000. Higher figures have been named to me by men whose opinions are entitled to as much weight as any that can be had on this subject. Many thousands of workmen employed by the mining, smelting and transportation companies would be involved. The ramifications of the effects of the closing down the various operations upon ores producing silver, lead, copper and zinc, are far-reaching.

68. Moreover they would not be confined to the United States, for the mines are in many countries, and a disaster to this industry at the present time obviously would be unfortunate for the influence it would have upon general industrial and business conditions throughout the world.

69. I am sure that no such ill-effects are contemplated or desired by the sponsors of this plan, and I am confident that this Commission will recognise that the problems involved in it are too complex, and the issues too serious for action to be taken without the most exhaustive investigation into the conditions which I have outlined.

70. In conclusion, I would repeat that in speaking of silver production I do not wish you to understand that I am an expert upon the mining industry. I am not a mining engineer, nor engaged in mining, but during the years of my incumbency of the position of Director of the Mint of the United States it happened that I had the

opportunity to become somewhat acquainted with gold and silver production. I prepared the statistics upon the subject which appear in the Mint Reports of those years. I have known many of the men who have been prominent in the mining industry in the United States, and I have felt justified in laying before you the general information which thus has come into my possession. For more exact information it will be necessary to have testimony from persons intimately related to the industry. My statement is for the purpose of emphasising the importance of having such testimony before acting upon this proposal to sell large amounts of silver from India or to make any further change in the policy of India regarding silver.

APPENDIX 87.

Report on proposal to place India on a Gold Standard, by Mr. Arthur Notman, Mining Engineer and Geologist, New York.

The method of putting this proposal into effect may be outlined as follows:—There are in the currency reserve of the Indian Government and in the silver rupees in circulation, which will be presented for redemption in gold, the equivalent of 687,000,000 fine ounces of silver. It is proposed to release this total in equal annual instalments over a period of 10 years, which would be equivalent to an increase of about 30 per cent. in the present available annual supply of 240,000,000 ozs.

Far-reaching Effects.

The effects of such action would be far-reaching throughout the non-ferrous metal industry of the world. The burden of these effects would fall, in large part, on that portion of the industry owned in the United States. The larger share of the domestic burden would fall upon the lead industry, together with the consumers of that metal. Copper, too, would be materially affected, whereas the zinc industry would be little disturbed.

Basis of Value.

In the past the price of silver has reflected any reduction in its use for coinage purposes and will doubtless continue to do so in the future. The world's stock of silver in all forms is steadily increasing. With a growing volume of trade between the Orient and the gold standard nations of the West the reverence for the metal as a symbol of value will gradually disappear. The present agitation from India is evidence of this tendency. Regardless of any governmental action, this cannot fail to have a depressing effect on consumption in the East.

Growth of World's Stock of Silver.

As we shall see, an increasing proportion of the total production is a by-product of the base metals. In view of the growing demand of the world for the latter metals, solidly based on manifold industrial uses, the world's stock of silver seems destined to increase even more rapidly than in the past. It is idle to suppose that in the face of these forces even the world-old sentiment of the Orient for the metal will successfully hold back economic law.

World Production.

In the years 1923 and 1924 the world produced 480,000,000 ozs. of silver, for which it paid approximately 65 cents per oz., or $312,000,000. This production was divided as follows:—

SILVER PRODUCTION OF THE WORLD, 1923–4.

Millions of Ounces.

United States	130	Europe	19
Canada	39	Oceania	25
Mexico	182	Asia	21
Central America	6	Africa	3
South America	55		
Total Western Hemisphere	412	Total Eastern Hemisphere	68

Grand Total, 480.

Sources of Domestic Production.

North America accounted for 73 per cent. of this output, and United States investors received the benefits derived from at least 300,000,000 ozs. The United States production was obtained from the following sources: from straight silver ores, 43 per cent.; from lead ores and lead ores carrying a little zinc, and/or copper, 35 per cent.; from copper ores, 20 per cent., and the small remaining balance from zinc ores. The world figures represent a record for silver. This is true, also, for the lead production. In the case of copper, the output in the war years 1917–18 exceeded that of 1923 and 1924 by about 6 per cent., but the latter years made a peace-time record.

The volume and trend of domestic silver production, and their relation to those of the base metals, are brought out in the accompanying Charts 1 and 2. World figures, if available, would in all probability show similar relationships. The evidence, so far as base metals are concerned, points strongly to still rapidly rising production and consumption. At the moment stocks of these metals are if anything below normal, showing that consumption has fully kept pace.

Domestic Consumption.

The domestic consumption of silver for the 12 years 1912 to 1923 inclusive, according to the American Bureau of Metal Statistics, was 663,000,000 ozs. Of this 41·6 per cent. went into coinage and 58·4 per cent. into manufacturing and the arts. One-quarter of the latter amount was derived from old scrap, and the balance from new material.

The principal industrial uses are silver ornaments, plating, photography, and the chemical industries. It should be remembered that aside from the small amounts actually consumed in the two latter industries, and the amounts lost by physical wear and tear on coins and ornaments or accidentally, the total stock is augmented each year by the annual production. In other words, the metal is practically indestructible. There are no statistics available to comprehend this condition. Presumably the great bulk of all the silver that has been produced since the beginning of time is still in existence in one form or another. Most of it, however, is performing no essential service.

Domestic Industrial Consumption.

No reliable figures other than those for the United States covering industrial consumption have been compiled. The per capita domestic industrial consumption has remained nearly stationary at ·32 of an ounce for the last 16 years. Its relation to the per capita consumption of the base metals, copper, lead, and zinc, is shown by the American Bureau of Metal Statistics as follows:—

Per Capita Industrial Consumption—United States.

	Silver.	Base metals.
For the three years, 1912–4, inclusive - -	·31 ozs.	23·52 lbs.
„ „ 1922–4, „ - -	·32 „	30·75 „

It seems probable that the industrial consumption of the nations of western Europe would bear somewhat the same relation to their consumption of the base metals as is apparent in this country. Unfortunately, our classification does not show what part of our industrial consumption depends on mere appearance and sentiment and what on valuable physical, chemical, or electrical properties peculiar to silver. However, it seems likely that the former considerations form the basis for the larger part of this consumption. It is not without significance that silver ornaments are stamped with the sterling brand to distinguish them from those made of many equally attractive but much cheaper base metal alloys.

Current Costs of Silver and the Base Metals.

An examination of the attached cost data, Tables I and II, for the years 1923 and 1924 throws light on this question. These data have been assembled from the

published annual reports of a group of representative silver producers. The strictly domestic companies had an output for the two years in excess of 75 million ozs., approximately 58 per cent. of the total domestic output.

In the preparation of the tables the production has been classified as follows:—(1) Geographically into domestic and foreign, and (2) according to the nature of the ores from which the silver is derived. The latter classification serves to separate that portion of the production which is mined essentially for its own value and/or that of associated gold from that secured as a by-product in the extraction of base metal ores. Straight zinc ores carrying silver have been disregarded for the reason that the production derived from them amounts to but 2 per cent. of the total.

Silver and Silver Gold Ores.

Table I shows that in the case of these ores a reduction in the price of silver of the 1923–4 average of about 65 cents per ounce to 45 cents would reduce the distributable margin before depletion from 30 cents to 10 cents per ounce, or $66\frac{2}{3}$ per cent. Out of this distributable margin provision must be made for the return of the capital investment with interest before there is any real mining profit. It is difficult to arrive at any satisfactory figure for the average investment per ounce of annual production in the case of these producers of straight silver ores. The reason for this is that the usual and justifiable conservative policy followed by them involves the charging out of these investments rapidly against earnings during the early history of the properties. Perhaps $1.00 per ounce of annual production would be a fair estimate of the amount of capital required. To insure its return with interest over the life of the deposits the annual yield should be 8 to 10 cents per ounce. In reality, therefore, when the distributable margin falls to this figure, there are no profits.

Base Metal Ores.

Companies faced by such a condition usually continue to produce even after this "living wage" has disappeared, in the hope that better prices, richer ores, lower cost, any or all will enable them to hold their heads above water. These considerations apply, with equal force, to the silver lead and silver copper producers. It is probable that there would still be some production from the first group after the price reached 20 cents per ounce. Selective mining of ores higher in grade than the average of the past might enable them to maintain a limited output with some distributable margin. Here, again, the same principle holds true for the producers of silver from base metal ores. With each successive drop in price all units would be affected, but in varying degrees. The most likely outcome would be that instead of certain units disappearing from the picture, as might be gathered from the tables, the production of each would be reduced. The combined effect of such reduction should approximate that which would be caused by the elimination of the higher cost units.

With these ideas in mind, a study of Tables I and II will give a picture of the effects of a falling price for silver on this particular group of producers. Table III should be studied with the others as it summarises these effects, assuming that the prices of lead and copper will remain at about the present level of 8 cents and 14 cents per lb. respectively. As we shall see later, this is not apt to be the case. To maintain the present requisite supplies of these metals in the face of falling prices for silver, their prices must necessarily rise. However, on any other assumption the picture would become too confused to hold any meaning.

It should be noted in the case of the Anaconda Copper Company that about one-half of their domestic investment is involved in activities other than that of producing electrolytic copper. Presumably, therefore, one-half of the margin shown is represented by income from these operations. Before comparison, therefore, with the other companies, the cost of their copper should be taken at about 11·75 cents. The case of the Utah Copper Company, representing over 25 per cent. of the copper production of the group, deserves special mention. Silver plays such a small part in their income that they would be practically unaffected. In all cases, the costs shown are after all credits and charges, excepting bond interest and depletion. Careful study of the history of the copper industry shows that the investment amounts to 40 cents per pound of annual output on the average. The figures for lead are not so

reliable, but indicate an investment of about one-half of this amount. If we assume that in general these properties have reserves of ore in the ground sufficient to maintain production for 20 years, an 8 per cent. annual dividend on these investments will yield 5 per cent. interest and an annual instalment which, reinvested at 4 per cent. compound interest will return the capital in 20 years. In other words, the capital charges amount to 3·2 cents per pound of copper and 1·6 cents per pound of lead. Naturally, those companies will continue to produce as long as they can earn any margin before these capital charges.

From the above it would follow that with lead at 8 cents per pound, when the cost as shown reaches 6·4 cents profit disappears, and similarly in the case of copper. With the metal at 14 cents per pound, when the cost reaches 10·8 cents profit vanishes. It is idle to suppose that production from these sources would then cease. We have already discussed the factors tending to maintain output under similar conditions in the case of the silver and silver gold ore. In that of the base metal ores there would be the added stimulus of the prospect of rising prices for these metals.

Estimated World's Silver Production at falling Prices.

It would seem essential for a proper view of silver production as a whole to attempt a quantitative estimate of the effects of this proposal in the light of those indicated on that portion of the industry for which we have figures. To do so, certain additional assumptions are necessary beyond that of constant prices for the base metals at their present level. For example, this would be a reasonable assumption, that the combined production of Canada and Mexico is obtained from the three classes of ore in the same proportions as that of the United States (for the latter, see Chart 2): namely, 43 per cent. from straight silver and silver gold ores (dry and siliceous and placer); 35 per cent. from silver lead ores; 20 per cent. from silver copper ores, and 2 per cent. from zinc ores. (Lead ores carrying minor amounts of zinc have been included with the lead silver group.) In general, the similar geological environment in these adjacent areas of the North American continent to that of the United States afford strong support for this assumption. To carry the assumption further and cover the balance of the world production is questionable, and yet, granting its validity with respect to the whole of North America, we have already covered 73 per cent. of the total production. Even a substantial error in this balance will be greatly minimised in the total. Table III, already referred to, shows how the silver production of our selected group would be affected by falling price, while Table IV shows the estimated effects on world production, assuming our sample to be representative and the necessary assumptions sound.

Balance between Production and Prices.

Just where the balance between production and prices of silver and the base metals would be adjusted is extremely difficult to forecast. In the absence of action such as that proposed in the plan under discussion, however, investments and metal prices can and will be gradually adjusted to changing conditions, without serious upset. On the other hand, the proposed action would unquestionably precipitate a most serious condition of affairs, with heavy losses to investments which amount in round numbers to 1 billion dollars in this country alone. An unavoidable sequel would be the loss of employment to many thousands of workmen by the enforced shutdown of mines, mills, smelters, refineries, &c.

While these facts apply more directly to the domestic situation, it is true that the effects would fall even more severely, proportionally, on Mexico, because of the fact that they produce 50 per cent. more silver, largely from lead-silver ores similar in nature to those of the United States.

Since 1904 the silver production of the Province of Ontario of the Dominion of Canada has amounted to over 350 million ounces, with a gross value of 225 million dollars. The average price received on this production was 63·66 cents per ounce. It must be obvious that if the future production can be sold at prices only from one-third to one-half of this figure, a tremendous injury will be done to the Canadian investments. The Western Hemisphere produces about 85 per cent. of the total world output. With silver at 20 cents, the income derived from this production would amount to 40 million dollars annually, compared with 130 million at the

present level. As already pointed out, the prices for lead, copper and zinc would inevitably be forced to a sufficiently higher level to compensate for this loss of income from silver. In my judgment, the increases necessary would amount to 1½ cents to 3 cents per pound of lead to 1 cent to 2 cents per pound of copper. If we now apply these increases to the present rate of consumption in this country for lead and copper they will amount to an annual charge of 33 to 66 million dollars. There is danger that such an adjustment in price in the case of copper would result in the transfer of a material portion of the production to foreign hands, with consequent severe loss to domestic investments. The dangers of any sudden disturbance of the equilibrium among the factors controlling the welfare of the non-ferrous metal industry of the world are obvious. Our study strongly supports the view that the present proposal would constitute a major danger of this sort.

TABLE I.

Output and Costs of Principal Silver Producing Companies of the Western Hemisphere for the two years 1923 and 1924.

NOTE 1.—All data taken from published annual reports of Companies or Year Book of American Bureau of Metal Statistics.

NOTE 2.—Costs are taken after all credits and anchorages, excepting bond interest and depletion with exceptions noted below.

PRODUCERS OF DRY AND SILICEOUS ORES.	Production.	Cost before bond interest and depletion.		Gold credit.	
	Silver ozs.	Total. Dollars.	Per oz. Cents.	Total. Dollars.	Per oz. Cents.
United States:—					
West End Consolidated Mining Co.	1,912,088	640,905	33·52	—	—
Tonopah Mining Co.	3,956,025	2,125,987	53·74	470,000	11·88
Tonopah Extension Co.	3,612,018	1,301,389	36·03	900,000	24·92
Tonopah Belmont Co.	2,084,459	1,044,903	50·13	474,660	22·77
California Rand Silver	4,672,817	937,418	42·03	—	—
Total	16,237,407	6,070,602	37·38	1,844,660	11·36
Canada:—					
Premier Gold Mining Co.	5,961,933	2,004,859	32·63	5,173,275	86·77
Nipissing Mines, Ltd.	6,489,778	1,753,154	27·01	—	—
Keeley Silver	3,224,776	679,639	21·07	—	—
Coniagas	1,890,977	618,739	32·72	—	—
Central America:—					
N.Y. Honduras-Rosario Mining Co.	4,228,115	1,897,370	44·88	—	—
Mexico:—					
El Tigre Mining Co.	5,718,109	2,030,346	35·51	—	—
Amparo Mining Co.	2,463,215	792,332	32·17	1,092,920	44·37
Dolores Mines Co.	1,826,869	1,067,634	58·41	—	—

TABLE II.

Producers of Lead-Silver Ores.	Production.		Net cost of lead.		Silver credit.		Other metal credits.		Net income before bond interest and depletion.		Estimated cost of lead per lb. with silver at 40 cents an oz.	Estimated cost of lead per lb. with silver at 30 cents an oz.	Estimated cost of lead per lb. with silver at 20 cents an oz.	Estimated cost of lead per lb. with silver at 10 cents an oz.
	Silver.	Lead.	Total.	Per lb.	Total.	Per lb. lead.	Total.	Per lb. lead.	Total.	Per lb. lead.				
	Ozs.	Lbs.	Dollars.	Cents.	Dollars.	Cents.	Dollars.	Cents.	Dollars.	Cents.	Cents.	Cents.	Cents.	Cents.
United States :—														
Tintie Standard	7,819,757	94,044,030	3,556,055	3·78	5,155,183	5·48	—	—	3,721,774	3·96	5·89	6·72	7·60	8·48
Silver King Coalition	4,308,239	61,907,127	1,956,977	3·04	2,830,584	4·57	400,413	0·64	2,905,894	4·69	4·71	5·41	6·22	7·01
Park City Mining and Smelting	2,577,650	44,292,548	2,173,741	4·91	1,693,804	3·82	377,059	0·85	1,239,927	2·80	6·38	6·96	7·57	8·18
Hecto Mining Co.	1,880,714	65,538,455	2,306,107	3·52	1,454,101	2·22	—	—	2,929,613	4·47	4·37	4·66	4·95	5·24
Federal Mining and Smelting Co.	3,260,728	142,782,000	8,033,101	5·53	2,147,375	1·50	—	—	2,968,836	2·08	6·11	6·34	6·57	6·80
Chief Consolidated	6,562,209	48,329,981	2,548,816	5·27	4,583,371	9·48	844,561	1·75	1,144,522	2·37	8·92	10·28	12·03	13·78
Hunker Hill and Sullivan	2,430,782	142,706,864	5,945,715	4·17	1,743,512	1·22	—	—	5,034,570	3·53	4·64	4·81	5·14	5·47
Bingham Mines	2,041,118	18,816,600	802,276	4·26	1,341,593	7·13	331,665	1·76	529,906	2·82	7·00	8·08	9·22	10·36
Total	30,871,197	618,417,005	27,322,728	4·60	20,949,523	3·39	1,953,698	0·32	20,475,042	3·31	5·90	6·40	6·99	7·58
Canada :— Consolidated Mining and Smelting Co. ...	7,034,758	Lead, zinc, and copper. 410,973,494	15,246,811	3·71	4,641,391	1·13	761,780	0·18	7,584,151	1·85	4·14	4·31	4·50	4·69
United States and Mexico :— *United States Smelting, Refining, and Mining Co.	46,892,544	Lead. 195,605,694	7,315,308	3·74	30,726,339	15·73	13,031,536	6·66	7,738,828	3·96	9·79	12·19	14·68	17·17
Grand total	84,798,499	1,224,996,193	49,884,847	4·07	56,317,253	4·60	15,747,014	1·28	35,798,021	2·92	5·84	6·53	7·29	8·05
Producers of Silver-Bearing Copper Ores.		Copper.	Net cost of copper.											
United States :—														
United Verde Copper Co.	3,980,153	196,084,395	19,379,700	9·88	3,082,304	1·57	2,241,154	1·14	6,750,000	3·44	10·48	10·84	11·04	11·24
Phelps Dodge Corporation	3,579,857	332,173,156	43,338,136	12·90	2,616,854	0·79	3,323,565	0·34	2,351,848	0·71	13·20	13·31	13·47	13·63
Utah Copper Co.	1,283,527	409,735,632	37,552,507	9·17	914,563	0·22	2,989,117	0·73	18,658,117	4·55	9·25	9·28	9·31	9·34
Kennecott (Alaska only)	752,788	93,841,251	9,323,168	9·93	523,467	0·56	—	—	4,000,612	4·26	10·11	10·19	10·33	10·47
Calumet and Arizona	1,638,559	84,013,739	9,753,696	11·65	1,078,590	1·29	1,105,680	1·32	1,742,703	2·07	12·05	12·25	12·55	12·85
†Anaconda Consolidated Copper	16,663,641	439,042,000	35,964,032	8·22	10,969,452	2·50	N.A.	N.A.	24,021,889	5·60	9·18	9·56	9·96	10·36
Total	27,898,525	1,554,890,173	155,311,239	9·99	19,185,230	1·23	9,659,516	0·62	57,525,169	3·70	10·46	10·64	10·88	11·12
Canada and Mexico :— Howe Sound...	4,674,105	48,876,000	4,682,275	9·60	3,066,418	6·27	—	—	1,985,687	4·06	8·68	13·00	13·96	14·92
South America :— Corrode Pasco	28,100,000	164,194,000	9,250,030	5·63	18,498,341	11·27	648,128	—	13,422,295	8·18	9·96	11·77	13·48	15·19
Total	32,774,105	213,070,000	13,932,305	6·54	21,564,759	10·12	648,128	0·34	15,407,982	7·23	10·43	12·05	13·59	15·13
Grand total	60,672,572	1,767,960,173	169,243,544	9·57	40,749,989	2·31	10,307,644	0·58	72,933,151	4·13	10·46	10·85	11·19	11·53

* The production figures for the United States Smelting Company include that of the Chief Consolidated Mining Company and possibly some others as well as that from the Company's own mines in the United States and Mexico.

† The figures for the Anaconda Consolidated Copper Company cover the production of copper from the Company's own mines in Montana. Cost figures are before bond interest less income from investments, and before depletion. Beside the silver credit, they are after credits for zinc and lead production, custom smelting, wire drawing, copper and brass manufacturing, &c. No allocation of income to these various operations is made in the Annual Report.

TABLE III.

	Production.			Remaining silver at 40 cents an oz.			Production at falling prices for the metal. At 30 cents an oz.			At 20 cents an oz.			At 10 cents an oz.		
	Silver ozs.	Per cent. of U.S.	Per cent. of World.	Total ozs.	Per cent. of U.S.	Per cent. of World.	Total ozs.	Per cent. of U.S.	Per cent. of World.	Total ozs.	Per cent. of U.S.	Per cent. of World.	Total ozs.	Per cent. of U.S.	Per cent. of World.
United States:—															
Dry and siliceous silver ores ...	16,237,407	12·5	3·4	10,713,301	8·2	2·2	—	—	—	—	—	—	—	—	—
Silver-lead ores	30,871,197	23·7	6·4	24,308,988	18·7	5·1	22,267,870	17·1	4·6	22,267,870	17·1	4·6	11,880,463	9·1	2·5
Silver-copper ores	27,898,525	21·5	5·8	27,898,525	21·5	5·8	27,898,525	21·5	5·8	27,898,525	21·5	5·8	27,898,525	21·5	5·8
Total	75,008,129	57·7	15·6	62,920,814	48·4	13·1	50,166,396	38·6	10·4	50,166,396	38·6	10·4	39,778,988	30·6	8·3
Canada, Mexico, Central and South Americas:—															
Dry and siliceous silver ores ...	31,803,772	—	6·6	25,748,785	—	5·4	9,714,552	—	2·0	—	—	—	—	—	—
Silver-lead ores	53,927,302	—	11·3	7,034,758	—	1·5	7,034,758	—	1·5	7,034,758	—	1·5	7,034,758	—	1·5
Silver-copper ores	32,774,105	—	6·8	32,774,105	—	6·8	32,774,105	—	6·8	32,774,105	—	6·8	—	—	—
Grand total ...	193,512,308	—	40·3	65,556,648	—	13·7	49,528,417	—	10·3	39,808,863	—	8·3	7,034,758	—	1·5
Dry and siliceous ores	48,001,179	—	10·0	36,462,086	—	7·6	9,714,554	—	2·0	—	—	—	—	—	—
Silver-lead ores	84,798,499	—	17·7	31,343,746	—	6·5	29,302,638	—	6·1	29,302,638	—	6·1	18,915,251	—	3·9
Silver-copper ores	60,672,630	—	12·6	60,673,630	—	12·6	60,673,630	—	12·6	60,673,630	—	12·6	27,898,525	—	5·8
Grand total ...	193,512,308	—	40·3	128,479,462	—	26·7	99,690,822	—	20·7	89,976,268	—	18·8	—	—	9·7
Per cent. reduction ...	—	—	—	—	—	33·7	—	—	53·6	—	—	53·6	—	—	76·8

TABLE IV.

Estimated World Production of Silver at Falling Prices.

Kind of Ore.	At 65 cents an oz.		At 40 cents an oz.		At 30 cents an oz.		At 20 cents an oz.		At 10 cents an oz.	
	Total ozs.	Per cent.	Total ozs.	Per cent.	Total ozs.	Per cent.	Total ozs.	Per cent.	Total ozs.	Per cent.
Dry and siliceous	103,200,000	43·0	78,240,000	32·6	2,160,000	0·9	—	—	—	—
Silver-lead	84,000.000	35·0	30,720,000	12·8	28,560,000	11·9	28,560,000	11·9	18,480,000	7·7
Silver-copper	48,000,000	20·0	48,000,000	20·0	48,000,000	20·0	48,000,000	20·0	12,480,000	5·2
Silver-zinc	4,800,000	2·0	4,800,000	2·0	4,800,000	2·0	4,800,000	2·0	4,800,000	2·0
Total	240,000,000	100·0	161,760,000	67·4	83,520,000	34·8	81,360,000	33·9	35,760,000	14·9

NOTE.—Based on following assumptions:—(1) That prices for lead and copper will remain constant at present level, 8 cents and 14 cents per lb. respectively.
(2) That world production is obtained from the different ores in the same proportion as that of U.S.
(3) That average world costs are similar to those of the representative group studied.

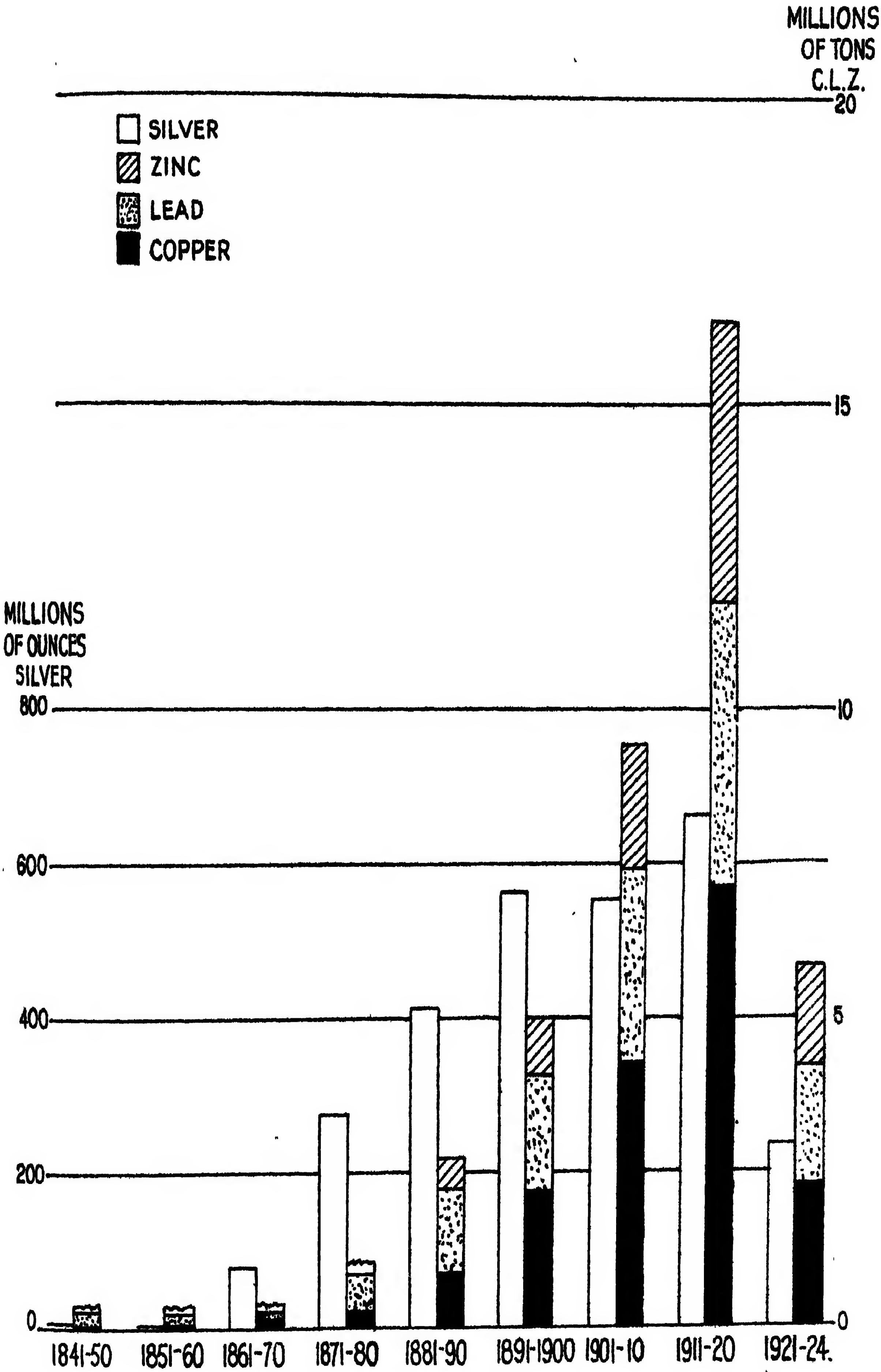

CHART I. *U.S. Production of Silver & the Base Metals* 1841-1924.

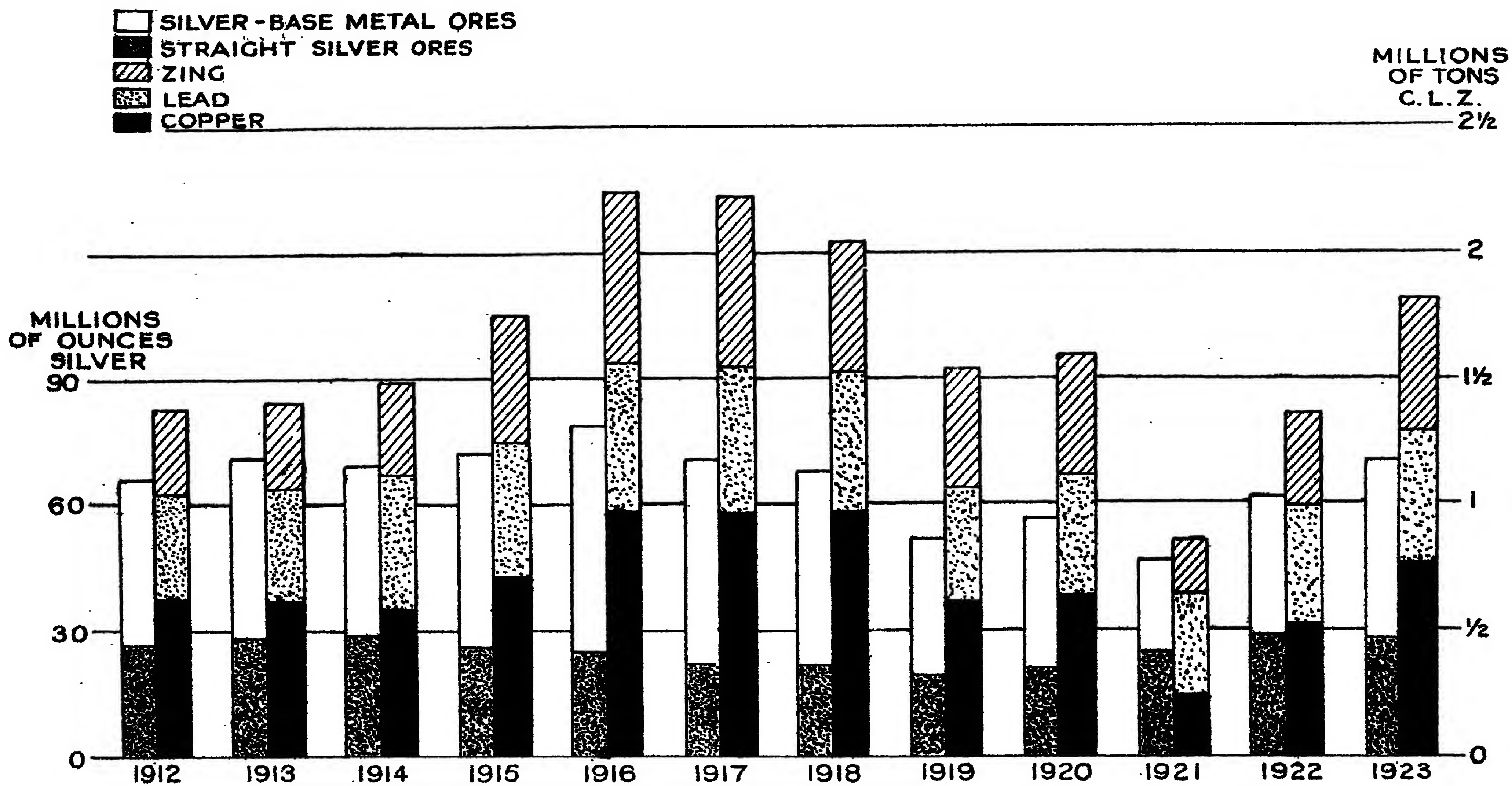

CHART 2. *U.S. Production of Silver by Sources compared with Production of Base Metals - Copper - Lead & Zinc. 1912 - 1923.*

Supplementary Memorandum by Mr. Notman.

The following figures are taken from the 1925 "Mining Manual and Year Book" by W. E. Skinner, published in London. They cover the production and financial returns for the fiscal year ending 30th June 1924 of the Burma Corporation, Ltd., operating very large lead mines in the Northern Shan States, upper Burma, and the Broken Hill South, Ltd., operating large silver, lead, and zinc mines at Broken Hill Barrier Ranges, New South Wales. Both these companies, so far as I am aware, are financed wholly by British capital and constitute major industrial units in their respective localities.

In preparing the following table I have assumed that the metals were marketed at the average of the London quotations for the period as reported by the American Bureau of Metal Statistics. In converting to dollars I have used the average exchange as reported by the Federal Reserve Bank for the period.

TABLE V.

Company.	Production.		Net cost of lead.		Silver credit.		Net income before bond interest and depletion.	
	Silver.	Lead.	Total.	Per lb.	Total.	Per lb.	Total.	Per lb.
	Ozs.	Lb.	$	Cts.	$	Cts.	$	Cts.
Burma Corporation	5,287,711	115,938,000	3,111,988	2·68	3,531,186	3·04	3,285,652	2·84
		Lead and zinc.	Net cost of base metals.					
Broken Hill South	1,236,572	129,272,640	7,696,822	4·64	825,794	0·64	1,689,533	1·31

NOTE.—(1) Average metal prices: Lead £28,065, zinc £32,779 per long ton, and silver at 66·781 cents per oz.. Exchange taken at $4·4043.

(2) In the transcript of the accounts of the Broken Hill South, apparently no charge for depreciation had been made against current earnings. It was stated, however, that £80,000 of the operating income had been appropriated for construction, and I have assumed that this amount would represent a fair charge to depreciation in arriving at net income before debenture interest and depletion.

It will be noted that the net costs for lead and zinc, after silver credits, are well within the range of those in the representative group shown in Table II of my Report. In the case of the Burma Corporation, which produced over 90 per cent. of the Indian silver output for 1924, the silver credit amounted to 107 per cent. of the net income, while in that of the Broken Hill South it represented 49 per cent. A reduction in the selling price of silver to 10 cents per oz. would have reduced the income of the Burma Corporation over $3,000,000, leaving them less than $300,000 net income, while that of the Broken Hill South, Ltd., would have suffered a reduction of $602,147.

APPENDIX 88.

Memorandum on the Effect upon the Copper, Lead and Zinc Mining Industries of successive decreases in the Price of Silver which would be caused by the introduction of the Gold Standard in India, by Mr. H. A. C. Jenison,* Consulting Engineer, Guaranty Company of New York.

Introduction.

Practically all of the data contained in this Report were collected by the United States Senate Commission of Gold and Silver Inquiry, under the chairmanship of Senator Tasker L. Oddie (Nevada), in compliance with instructions from the United States Senate, to determine the reasons for the decrease in gold and silver production, and to recommend remedial legislation should it be necessary. Since most of the American silver production and a large part of the American gold production is derived from copper, lead and zinc ores, the investigation necessarily included the copper, lead and zinc industries.

The writer was the engineer in charge of the mining investigation, and prepared the questionnaire on mining costs and investment in the non-ferrous metal mining industry.

* 1919–23, Geologist in charge of copper, United States Geological Survey. 1923–5, Mining Engineer in charge of mining cost, investments, yield investigation of copper, lead, zinc, gold and silver, U.S. Senate Commission of Gold and Silver Inquiry.

The data collected covered the period 1913–24 inclusive, and are exceedingly comprehensive and complete for all of the principal mining companies, and represent approximately 95 per cent. of the productive capacity of the copper industry, 75 per cent. of the lead, 70 per cent. of the zinc, 75 per cent. of the silver, and 55 per cent. of the productive capacity of the gold mining industry.

A very careful and accurate analysis of the records of the companies was made for the sole purpose of determining the facts, and, if possible, recommending sound permanent solutions of problems of the industry.

All of the data were collected under the pledge of regarding the individual companies' records as highly confidential. Consequently in this Report only aggregate figures can be shown. The data are the most accurate that could possibly be assembled.

Companies included in the Report.

Copper Companies.

All of the American copper companies whose income from silver is a substantial part of the total income, and necessary to the successful exploitation of silver-bearing copper ores, have been included. If it were possible to include an analysis of the cost and production records of all the small copper vein mines of the Western States, the vital importance of silver in the successful operation of this group of copper mines would be more strikingly demonstrated.

The productive capacity of the group included in this Report is about 40 per cent. of the total domestic productive capacity, and the production of the group for the years 1919–24 inclusive was approximately 40 per cent. of the total domestic production and 20 per cent. of the production of the world. The production of this group is three to six times as large as any additional production which would be made from the rest of the industry without greatly expanding their present plants and equipment.

Therefore, any vital change in the conditions under which this group of mines is operating would be transmitted to the rest of the industry in the same or greater proportions.

Method of determining costs.

The costs herein shown include all the direct and indirect costs of mining, concentrating, smelting, refining and marketing, depreciation and taxes. The costs and income shown is that which has been actually derived from the production and marketing of metals.

Non-operating income, such as that from customs smelting, sale of power, rentals, &c., has been excluded, since in all cases the operations are too small and unimportant to be carried on independently of mining, and would therefore cease with the suspension of mining operations.

The costs and income have been carefully segregated according to metals for those companies which produce large quantities of two or more of the base metals. Where considerable quantities of more than one base metal are produced, and it is impossible to allocate the costs accurately, the secondary base metal has been expressed in terms of the principal metal, according to their respective values. Depletion (return of invested capital) has not been considered as a cost, and no consideration has been given to income from investments.

Lead companies.

A very large part of the western lead production of the United States is made by hundreds of small operators who sell their ore or concentrates to the customs smelters. The cost record of this production is not available, or it is too inaccurate to be of any value. Consequently, the cost statistics contained in the tables represent only five or six of the principal western lead mines. These statistics, however, are a sound basis for the consideration of the lead industry, since the production of lead from these mines varies far less with the fluctuations in the prices of lead and silver than does the production from the smaller mines. Consequently, it may be assumed that the great majority of the small western mines, whose aggregate production is so large and so important, are all more nearly-marginal than those large mines whose costs are shown herein.

Method of determining costs.

The methods of arriving at costs, credits, and income for the lead companies are the same as for the copper companies and the data are in all ways comparable.

The Effect of a material decrease in the Price of Silver upon the Copper Industry.

The copper and silver producing group of mines under consideration in the United States represents about 40 per cent. of the total copper production capacity of the domestic industry. From 1919 to 1924 inclusive, this group produced about 40 per cent. of the total domestic production and about 20 per cent. of the world's production of copper.

Throughout that period the average production of silver from this group was in excess of 50 fine ozs. per ton of copper. The credit for silver per lb. of copper has decreased with the decrease in the price of silver from 3·12 cents in 1919 to 1·61 cents in 1924.

A practically proportionate decrease in the cost of producing copper (due to metallurgical improvements, selective mining, and production on the most economic scale) and in the selling price of copper has, however, resulted in a nearly constant relationship between the value of copper and of silver produced.

For the entire period under consideration, the value of the silver recovered from the mining of copper has varied from 85 per cent. to 112 per cent. and has averaged 102·5 per cent. of the total net income from mining and marketing copper. That is, the value of the silver recovered from the mining, recovery, and marketing of the metals contained in the silver-bearing copper ore has exceeded the total profit thereon.

Furthermore, in the year 1924 the cost of producing copper by this group was reduced to approximately the minimum which may be reasonably expected under the present and most economic scale of production, and yet the value of silver recovered from the copper ores produced was 97 per cent. of the net income from the operation.

Thus the price of silver determines the net profits from the production and marketing of copper from this group as a whole.

With the price of copper remaining constant, a decrease in the price of silver to about 33 cents per oz. would make it impossible for more than one or two of the companies in this group to operate at a real profit, and none of them could withstand a material operating or market reverse without incurring an operating loss. Furthermore, with silver at 33 cents per oz., and with no reverses of any kind, this group of companies would only earn about $5,000,000 upon an outstanding investment of more than $600,000,000, or about ·8 per cent. (eight-tenths of 1 per cent.).

Therefore, all of the companies in this group would be marginal producers and quite unable to earn an adequate return on capital invested, ever return the investment itself, or liquidate nearly $200,000,000 worth of outstanding bonds.

A further decrease in the price of silver would be proportionately more disastrous.

With such a decrease in the price of silver, there would be two alternatives for the mines of this group—(1) *intensive, selective mining,* and (2) *suspension of operations* until the price of copper again permitted operations.

The state of the copper market for the past seven years has forced upon this group of mines selective mining on a broad scale. Highly selective mining, however, did not yield a sufficient tonnage to greatly reduce the cost. In 1924, however, *increased tonnage,* combined with the maximum of selective mining possible, greatly lowered the cost of production.

Consequently it seems certain that sufficient selective mining could not be practised to compensate for the loss of the silver credit for any appreciable length of time. Even if sufficient selective mining could be practised to compensate for the loss of silver credit, it would curtail production enormously (thus creating a shortage of copper), quickly exhaust the high-grade ores without profit, and render the exploitation of the remaining great tonnages of low-grade ore impossible without an increase in price of copper greater than the loss of silver credit.

If operations were suspended instead of being enormously curtailed, a greater shortage of copper would result and the price of copper would inevitably increase enough to enable these mines to resume operations as marginal producers. The resumption of operations by this group would slightly depress the price of copper, again resulting in exhaustion of ore reserves, without profit, or would force suspension.

In either case, the price of copper throughout the world would increase at least 2 cents per lb., and these mines would remain marginal producers, thus failing to earn interest on the outstanding investment, much less repay it.

Furthermore, the increased price of copper of about 2 cents per lb., and the transformation of this group of mines into marginal producers through the decreased

value of silver would undoubtedly result in a rapid increase in productive capacity of the large, low-grade, non-silver-bearing, low cost, American, South American and African copper mines equal or nearly equal to the productive capacity of this group of mines. *In such an event, this group of mines would soon have to be abandoned.*

In summary, it is concluded that the decrease in the value of silver to 33 cents or less per oz. would ultimately probably result in—

(1) a loss or a failure to recover between $600,000,000 and $700,000,000 of outstanding investment in these mines;

(2) the loss of several thousands of millions of pounds of copper (5,000,000,000 to 10,000,000,000—worth at present prices $700,000,000 to $1,400,000,000) contained in the ore reserves which could not be mined.

Lead companies.

The most conspicuous development in the domestic non-ferrous metal mining industry since the war has been the extraordinary increase in the consumption and price of lead, particularly since 1919. This increase up to 1923 was in excess of 200,000 tons, or 31 per cent. and was partially supplied by an increase of about 125,000 tons in the domestic production, about 107,000 tons of which increase was supplied by increased or new production from the silver-lead mines of the west. The Central States, under the inducement of high prices of 1924, were only able to increase their production 49,000 tons, or 23 per cent. over the 1919 figure.

The accompanying tables indicate the increase of domestic production according to sources, and establish the fact that the marginal lead producers of the United States are the western silver-lead mines. It is apparent that, on account of the new high level in the price of lead, the increasing consumption, the tariff on imports, and the failure to develop (with the notable exception of one mine in British Columbia) any new large additional sources of lead, that, so far as the United States is concerned, these marginal silver-lead producers of the west do and will determine the domestic price of lead probably at some unknown point below that price where consumption of lead is restricted by the competition of substitutes.

It is impossible to determine accurately the cost of production of a very large part of the western lead because it is sold as ore or concentrates to the smelters and is derived from hundreds of small operators whose cost records are inadequate for the accurate determination of the cost of production. The accompanying table, showing the costs of lead in the principal western lead mines, is, however, sound criteria upon which to draw conclusions as to the effect on the production of lead of a large decrease in the price of silver, since their production is fairly constant and of low cost.

The five of the principal lead companies whose costs are shown for 1919, 1920 and 1922, are far more independent of fluctuations in the price of silver than the numerous small ones which sell their ore directly to the smelters. It is a matter of common knowledge and smelter experience that production, from those mines which sell their ore and concentrates to custom smelters, varies greatly with fluctuations in the price of lead and silver, and it is certain that most of such production was not and could not be made at decreased prices of lead and silver which did not and would not materially affect production from the five mines whose costs are shown.

For the years 1919 to 1922 inclusive the average cost of lead for the five mines considered was 8·23 cents per lb., the silver credit 4·32 cents per lb. of lead, and the net cost of lead was about 3·9 cents per lb. These averages include mines with relatively large silver production and mines with relatively small silver production, and may be taken as representative figures for the minimum average cost of production of lead in the Western States. It is a notable fact that, for the three years under consideration, the value of silver produced with the lead by these mines was 170 per cent. of the total net income from the operation.

Unquestionably there have been changes in the cost of production since 1922, but in general they have largely increased instead of decreased. The higher prices for lead in 1923 and 1924 enabled the large low cost mines (mainly the Idaho group) to increase their production by mining lower grade ores, thus increasing their average cost of production. The higher prices permitted the mines of the Utah and similar groups to increase their production by about 75 per cent. in 1923 and practically 100 per cent. in 1924.

In this connection it must be borne in mind that extensive selective mining is possible in the larger mines of this group, and their present production is readily divisible into two classes: (1) the low cost, half of the present production which was

possible under the fairly low lead prices of 1922; and (2) the high cost, half of the present production which is possible only under the present high prices for lead and very large credit for silver.

In 1924 the silver produced by the Utah group was below the average for the past seven years and yet was from 120 to 300 ozs. of silver per ton of lead. The silver credit varied for the different companies from 4 cents to 7 cents per lb., and averaged 5·3 cents per lb., which is twice as great as the difference in the price of lead in 1924 and 1922 (2·36 cents per lb.). Obviously with such large silver credit and the inability of this group to produce more than one-half of their present production with lead at 1922 prices (5·7 cents per lb.), most of their income, if not all of it, as a group, is still derived from the value of silver. In others, the average credit for silver per lb. of lead in 1924 for this group of mines was 5·3 cents per lb., and increase in 1924 prices for lead over 1922 was only about 2·36 cents. Therefore, a decrease in the price of silver to 35 cents or less per oz. (the price of lead remaining constant at 8 cents), the production of this group would be curtailed about 50 per cent. (the 1922 rate of production), or about 35,000 tons. Similar curtailment for the rest of the Western States would be inevitable and would total at least 70,000 tons, since the smaller Colorado, Nevada, Arizona, Idaho and Montana mines are equally, if not more, dependent upon silver.

Such curtailment of production would result in a shortage of lead and an increase in the price of lead sufficient to restore this production to the position of marginal production, or an increase equal to loss of silver credit, about 3 cents per lb. of lead.

Mexican mines, which supply the principal part of the imports of lead into the United States, are even more dependent upon silver for the successful operation, even at the present high price of lead, than are the most of western domestic mines. Representative Mexican mines indicate that the minimum silver recovery per ton of pig lead produced varies from 150 to 200 ozs. per ton of lead, indicating a minimum credit for silver per pound of lead of from 5 cents to 6·6 cents per lb.

This lead could not be produced and imported into the United States without an even greater increase in the price of lead than that necessary to permit of the western domestic mines to operate. The inability of this class of Mexican mines to operate without a credit for silver of 3 cents to 5 cents per lb. of lead would inevitably result in a still greater shortage of lead and a rise of price to such a level that even these marginal mines could supply the additional quantity of lead necessary to meet the demand.

An increase of about 3 cents per lb. would make lead about 11 cents per lb., a price which has been nearly equalled several times in the last two years, when the silver lead producers had normal credit for their silver. It is consequently believed that the subsequent decrease in price of lead was not due to the competition of substitutes, but due to increased production and satisfied demand.

Therefore, it is entirely reasonable to believe that a decrease in the price of silver to about 35 cents per oz. would result in an increased price of lead of at least 3 cents per lb., thus adding an additional cost of $45,000,000 per year to the present cost of lead to the consumers at the present rate of consumption.

Furthermore, such an increase in price of lead would greatly stimulate production from the non-silver-bearing domestic lead mines and the low cost foreign mines, such as the Sullivan mine in British Columbia. If these mines are able to produce an additional 70,000 to 150,000 tons of lead (the minimum sum of the domestic and Mexican production greatly affected by a decrease in the price of silver) the American and Mexican production, which would be marginal with a decrease to 35 per cent. per oz. of silver and increase of 3 cents per lb. of lead, would be permanently marginal without decreasing the price of lead and the mines could not be operated at a profit.

Zinc mines.

The zinc mines of the Western States, with the exception of three or four, are small, more or less intermittent producers of copper, lead, zinc, gold, and silver, and were more or less marginal under any conditions until the recent successful development of selective flotation.

During the period 1919–22 inclusive, three of the principal western zinc mines made an average production per year of about 113,000 tons of zinc at a cost of approximately 6 cents per lb. with an average credit for silver of about 2·09 cents

per lb., making a net cost of zinc slightly less than 4 cents per lb.. The credit for silver represented more than 100 per cent. of the net income from the operation.

The increased selling price of zinc has resulted in an increased cost for many of the small producers as well as some of the larger ones, on account of the treatment of lower grade ores, but the proportion which the value of silver has borne to the net operating income has remained nearly constant, thus contributing the principal part of the profit derived from this operation.

Most of these mines under the present conditions can operate for 10 to 20 years, whereas those mines in the Central States probably cannot maintain their present rate of production for more than five or six years without most unexpected discoveries of new zinc fields in the Central States. Very active development and prospecting in zinc regions of the Central States in the last few years has not resulted in the discovery of any new fields or in greatly extending the present ones. Therefore, for some years at least, such zinc mines as most of those of the Western States, will be marginal mines and consequently will largely determine the price of zinc. This determination of price is a function of the price of silver, and in the main, any loss due to a decrease in the price of silver must be compensated for by a corresponding increase in the price of zinc.

However, it is not believed that a decrease in the price of silver to 35 cents or less would result in an increase in the price of zinc of more than a cent or a cent and a half per lb., but this increase would be essential to those western mines, and it is essential that they continue to operate since they are the only mines on this continent with long assured lives, that is, with very large-developed and potential ore reserves.

Complex lead-zinc ores.

The failure of five years of more or less active prospecting to reveal any large new lead or zinc districts and the increasing demand for lead and zinc has concentrated attention more or less successfully on selective flotation and electro-thermic production of complex lead-zinc ores, which, together with the high price of lead and zinc and the large credit for silver, has made available millions of tons of complex lead-zinc ore. So far as can be determined at the present time, the increasing demand for lead and zinc must be satisfied largely, if not mostly, from such complex ores. In Utah, several years' experience with selective flotation of complex lead-zinc ores indicates that the average credit for silver is about $6 per ton of ore treated. This is understood from confidential sources to represent at least 80 per cent. of the profit to the miner of such complex lead-zinc ores. Obviously, a material decrease in the price of silver would make the treatment of most of such complex lead-zinc ores impossible without a corresponding increase in the price of lead and zinc.

Custom smelting and refining companies.

The principal profit derived from the custom smelters and refiners of lead in the United States is from the price margins on metals the recovery of more metal, particularly silver, than is paid. That is, the principal profit is derived, not from treatment charges, but from buying the lead and the silver in the ore or concentrates at the market price, recovering more metal than was paid for, and selling them (the metals) at a higher price than the purchase price. Since the credit of silver in customs ore varies from 2 cents to 25 cents or 30 cents per lb. of lead produced, a material decrease in the price of silver would make such custom operation impossible without a great increase in the price of lead. Losses which the customs smelters and refiners would sustain from a decrease in the price of silver would ultimately, of course, be transmitted to the miner, but the result would be the same in any case—a large increase in the price of lead. If the price of silver continuously decreased, it would be nearly impossible for the smelters to pay the miners for their silver without sustaining serious losses, since, under the present system, the miner is paid for his ore concentrates on the basis of the quotations of metals in New York as of the day on which the ore or concentrate arrives at the smelter, and the smelters would be forced to sell the silver at a future unknown but lower price. The loss due to such decline would have to be sustained by the smelter, or an entirely new system of settlement developed. In any case, the situation would be chaotic for some time.

Silver mines.

No effort has been made to show the costs of silver from the straight silver mines, since, on account of the varying conditions of the silver market for the past seven years, it is impossible to illustrate average conditions.

Until the expiration of the Pittman Act, costs per ton of ore were sacrificed in order to make a large production, and since that time highly selective mining has been extensively practised in order to effect the decreasing value of silver. Consequently, the costs records alone are insufficient data upon which to base an opinion.

It is certain, however, that even at the present price of silver, but few silver mines are making much profit, and it is even more certain with silver at 33 cents per oz. or less, that in a very few years (four or five at the most) the silver production from this group of mines would be nearly negligible.

SUMMARY.

Copper.

The decrease to 35 cents or less per oz. of silver would in all probability result in an increase in the price of copper of about 2 cents per lb., a loss of some $600 million invested in the copper-silver mines of the west, replacing of their production by foreign production, and the loss of 5 to 10 thousand million lbs. of metal contained in the ore reserves of these mines which could not be successfully operated under such conditions.

Lead mines.

The result of such a decrease in the price of silver so far as lead is concerned would in all probability be primarily and principally that of increasing the price of lead about 3 cents per lb. and making the silver-lead mines of the west marginal producers, thus rendering it impossible for them to earn interest on the investment or to recover the outstanding investment.

Zinc mines.

The decrease in the price of silver to about 35 cents per oz. or less would probably be reflected merely in an increase in the price of zinc of a cent or a cent and a half per lb., the loss of part of the zinc reserves of the west and the more rapid exhaustion of the comparatively short-lived reserves of the Central States.

Complex lead-zinc ores.

Until the increase in the price of lead and zinc offset the loss of the value of silver, the necessary production from the complex lead-zinc ores would be cut off and their general availability be postponed and increased in cost.

TABLE 1.

Mine Production of Silver in the United States and the number of Fine Ounces and Percentages of Production derived from the Principal Classes of Ores.*

1914—24 Calendar Years.

(In thousands of fine ounces.)

Year.	Total production.	Placers.		Dry and silicious ores.		Copper.		Lead.		Zinc.		Copper-lead, and copper-lead-zinc ores.		Lead-zinc ores.	
		Ozs.	% of total.	Ozs	% of total.	Ozs.	% of total.	Ozs.	% of total.	Ozs.	% of total.	Ozs.	% of total.	Ozs.	% of total.
1914... ...	69,623	152	0·22	27,812	39·95	14,830	21·30	19,302	27·72	145	0·21	249	0·36	7,133	10·24
1915... ...	72,354	155	0·21	25,710	35·53	18,781	25·96	19,829	27·40	1,136	1·57	234	0·33	6,509	9·00
1916... ...	78,858	126	0·16	24,594	31·18	24,541	31·12	19,217	24·37	1,274	1·61	533	0·68	8,572	10·88
1917... ...	70,662	119	0·17	21,490	30·41	10,314	28·75	19,096	27·02	550	0·78	448	0·64	8,645	12·23
1918... ...	68,059	90	0·13	21,565	31·68	20,463	30·07	18,291	26·89	136	0·20	225	0·33	7,290	10·70
1919... ...	51,900	78	0·15	19,044	36·69	12,881	24·82	14,351	27·65	39	0·08	232	0·45	5,274	10·16
1920... ...	56,537	73	0·13	20,478	36·22	12,151	21·49	17,070	30·19	1,258	2·23	670	1·18	4,837	8·56
1921... ...	46,333	81	0·18	24,117	52·05	4,783	10·32	14,913	32·19	6	0·01	449	0·97	1,983	4·28
1922... ...	61,208	61	0·10	28,632	46·78	10,376	16·95	16,757	27·38	1,677	2·74	670	1·09	3,036	4·96
1923... ...	70,356	58	0·08	27,637	39·28	14,684	20·87	20,140	28·63	2,171	3·08	1,348	1·92	4,318	6·14
1924... ...	64,071	51	0·08	20,388	31·82	16,335	25·50	18,859	29·43	24	0·04	1,194	1·86	7,218	11·27
Average, 1914–24	64,542	95	0·15	23,770	36·83	15,467	23·96	17,984	27·86	765	1·19	568	0·88	5,892	9·13

* As reported by the U.S. Geological Survey—1925 figures are not yet available.

TABLE 2.

World's Production of Copper.

(In short tons—2,000 lb.)

—	1919.	1920.	1921.	1922.	1923.	1924.
North America:						
United States	604,642*	635,248*	236,006	493,853	738,762	793,377
Mexico	66,661	49,866	13,576	29,842	60,538	49,150
Canada	39,789	39,121	22,632	25,300	40,230	51,008
Cuba	10,991	7,491	8,600	11,788	11,963	12,742
Total North America ...	722,083	731,726	283,228	578,900	866,731	931,900
South America:						
Bolivia	7,714	10,910	10,674	10,154	11,744	8,200
Chile	87,721	109,075	65,299	142,830	201,042	209,855
Peru	43,243	36,356	36,689	40,133	48,684	38,495
Venezuela	700	—	800	1,075	1,175	1,230
Total South America ...	139,378	156,341	113,462	194,192	262,645	257,780
Europe:						
Austria-Hungary	713	1,747	4,600	5,050	5,327	4,465
France	962	1,718	2,395	3,199	9,031	5,511
Germany	17,384	19,015	20,944	18,739	18,739	21,495
Jugoslavia	1,332	2,684	4,376	5,756	7,536	8,978
Norway...	482	613	6,311	10,598	8,816	10,913
Russia	—	—	—	2,205	2,205	3,600
Spain and Portugal	38,581	25,353	36,596	40,234	57,115	60,713
Sweden...	4,442	1,793	1,465	67	5,180	3,086
Total Europe	63,896	52,923	76,687	85,848	113,949	118,761
Asia:						
Japan	86,468	74,727	59,626	59,663	70,316	69,378
Other Asia	1,098	593	1,280	1,162	810	1,378
Total Asia	87,566	75,320	60,906	60,825	71,126	70,756
Australasia	18,118	29,327	20,869	13,754	19,995	15,711
Africa	34,548	33,708	42,501	58,219	80,410	114,700
Other countries	4,409	3,307	3,307	3,307	3,307	4,409
Grand totals	1,069,998	1,082,652	600,960	995,045	1,418,163	1,514,017

* In the case of U.S., figures for 1919 and 1920 are based on blister copper, while figures for 1921, 1922, 1923, and 1924 are actual production by mines.

TABLE 3.—Copper Companies.

RECAPITULATION.

Year.	Production.			Income from metals.			Total operating expense, including depreciation and taxes.	Net operating income.	Cost of copper.	Silver credit of copper.	Net cost of copper.	Proportionate value of silver to net income.	Ozs. of silver per short ton of blister copper.
	Copper.		Silver.	Copper.	Silver.	All metals.							
	1,000 lbs.	Short tons.	1,000 ozs.	$	$	$	$	$	Cts. per lb.	Cts. per lb.	Cts. per lb.	Per cent.	
1919 ...	434,544	217,272	12,994	76,419	13,552	99,237	80,665	12,113	18·564	3·119	15·445	111·9	59·8
1920 ...	487,550	243,775	12,817	87,219	13,479	103,424	87,461	15,593	17·939	2·765	15·174	86·4	52·6
1922 ...	488,750	244,375	12,268	66,294	11,818	80,575	68,996	10,275	14·107	2·418	11·689	115·0	50·2
1923 ...	607,220	303,610	16,153	89,262	12,990	102,252	90,226	12,026	14·859	2·139	12·720	108·0	53·2
1924 ...	592,018	296,009	14,280	77,187	9,538	86,725	76,836	9,889	12·979	1·611	11·368	96·5	48·2
All years ...	2,610,082	1,305,041	68,512	396,381	61,377	472,213	404,184	59,896	15·485	2·352	13·133	102·5	52·5
1923 & 1924	1,199,238	599,619	30,433	166,449	22,528	189,277	167,062	21,915	13·93	1·88	12·05	102·8	—

PROPORTION OF INCOME DERIVED FROM SILVER.

1922.				1923.				1924.			
Cost of copper.	Silver credit of copper.	Net cost of copper.	Proportionate value of silver to net income.	Cost of copper.	Silver credit of copper.	Net cost of copper.	Proportionate value of silver to net income.	Cost of copper.	Silver credit of copper.	Net cost of copper.	Proportionate value of silver to net income.
Cts. per lb.	Cts. per lb.	Cts. per lb.	Per cent.	Cts. per lb.	Cts. per lb.	Cts. per lb.	Per cent.	Cts. per lb.	Cts. per lb.	Cts. per lb.	Per cent.
12·740	1·628	11·112	75·3	16·293	1·774	14·519	980·0	14·071	1·129	12·942	697·9
16·453	2·873	13·580	136·8	13·758	1·598	12·160	62·9	12·916	1·297	11·619	78·6
7·566	·738	6·828	11·1	13·125	·572	12·553	26·7	13·327	·469	12·858	108·2
9·482	·632	8·850	13·3	14·932	1·072	13·860	127·6	13·046	·826	12·220	77·9
14·694	·642	14·052	—	16·257	3·397	12·860	184·6	12·879	2·339	10·540	101·3
23·155	2·666	20·489	—	16·968	3·469	13·499	287·5	14·387	2·877	11·510	190·9
17·991	4·745	13·246	591·5	18·062	3·057	15·005	—	18·207	2·843	15·364	—
12·439	1·500	9·84	55·4	13·979	1·052	12·927	59·4	13·691	·870	12·821	430·8
10·139	·679	9·460	10·9	11·281	1·781	9·500	34·3	12·068	1·248	10·820	57·3
13·232	1·280	11·952	116·0	18·486	3·486	15·000	—				
15·704	4·391	11·313	810·4								
14·107	2·418	11·689	115·0	14·859	2·139	12·720	108·0	12·979	1·611	11·368	96·5
				Average, 1923–24				13·93	1·88	12·05	102·8

TABLE 4.—Copper Companies.

—	Silver at 50 cents an oz.					Silver at 33⅓ cents an oz.					Silver at 10 cents an oz.				
	Silver income.	Decrease in net income.	Net income.	Copper credit.	Net cost of copper.	Silver income.	Decrease in net income.	Net income.	Copper credit.	Net cost of copper.	Silver income.	Decrease in net income.	Net income.	Copper credit.	Net cost of copper.
	$'000	$'000	$'000	Cts.	Cts.	$'000	$'000	$'000	Cts.	Cts.	$'000	$'000	$'000	Cts.	Cts.
1923	575	170	94*	1·37	14·92	383	362	286*	·91	15·38	115	630	554*	·27	16·02
	413	264	812	·97	12·79	275	402	674	·65	13·11	83	594	482	·20	13·56
	94	59	515	·35	12·78	62	91	483	·23	12·90	19	132	442	·07	13·06
	1,017	591	669	·68	14·25	678	930	330	·45	14·48	203	1,405	145*	·14	14·79
	4,159	2,662	1,033	2·07	14·19	2,773	4,048	353*	1·38	14·88	832	5,989	2,294*	·41	15·85
	140	90	10*	2·11	14·86	93	137	57*	·68	16·31	28	202	122	·42	16·55
	255	163	205*	1·86	17·20	170	247	289*	1·27	16·79	51	367	409*	·27	17·79
	93	59	197	·64	13·34	62	90	166	·43	13·55	19	133	123	·13	13·85
	1,063	680	4,409	1·09	10·19	708	1,035	4,054	·72	10·56	213	1,530	3,559	·22	11·06
	270	173	211*	2·12	16·37	180	263	301*	1·42	17·07	54	389	427*	·32	18·17
Total ...	8,077	4,913	7,113	1·33	13·53	5,384	7,606	4,420	·89	13·97	1,615	11,371	655	·27	14·59
1924	250	85	37*	·84	13·23	167	168	120*	·56	13·51	50	285	237*	·17	13 90
	407	137	555	·97	11·95	271	273	419	·65	12·27	81	463	229	·19	12·73
	89	30	80	·35	12·98	59	60	50	·23	13·10	18	101	9	·07	13·26
	773	259	1,066	·57	12·48	515	517	808	·38	12·67	155	877	448	·12	12·93
	4,173	1,400	4,104	1·75	11·13	2,782	2,791	2,713	1·17	11·71	835	4,738	766	·35	12·53
	298	99	109	2·16	12·23	198	199	9	1·44	12·95	60	337	129*	·43	13·96
	152	51	211*	2·13	16·08	101	102	262*	1·41	16·80	30	173	333	·42	17·79
	84	28	2*	·65	13·04	56	56	30*	·44	13·25	17	95	69*	·13	13·56
	916	307	1,829	·94	11·13	610	613	1,523	·62	11·45	183	1,040	1,096	·19	11·88
Total ...	7,140	2,398	7,491	1·21	11·77	4,760	4,778	5,111	·80	12·18	1,428	8,110	1,779	·24	12·74
All years (1919, 20, 22, 23 & 24).	34,526	24,865	30,711	1·31	13·84	22,837	36,554	19,022	·87	14·28	6,851	52,540	3,036	·26	14·89
1923 & 1924 ...	15,217	7,311	14,604	1·27	12·66	10,144	12,384	9,531	·85	13·09	3,043	19,485	2,430	·25	13·68

* Indicates a *loss*.

TABLE 5.—Copper Mines. Copper at 14 cents an oz.

Year.	Actual.				Silver at 50 cents an oz.			Silver at 33⅓ cents an oz.			Silver at 10 cents an oz.		
	Average cost of copper.	Average silver credit.	Average net cost of copper.	Average production.	Average silver credit.	Average net cost.	Total theoretical production.	Average silver credit.	Average net cost.	Total theoretical production.	Average silver credit.	Average net cost.	Total theoretical production.
	Cts.	Cts.	Cts.	1,000 lbs.	Cts.	Cts.	1,000 lbs.	Cts.	Cts.	1,000 lbs.	Cts.	Cts.	1,000 lbs.
1923	15·18	1·45	13·73		1·11	14·07*	Copper	·74	14·44*	Copper	·22	14·96*	Copper
and	13·34	1·45	11·89		·97	12·37	385,000.	·65	12·69	165,000.	·20	13·14*	100,000.
1924.	13·23	·52	12·71	Copper	·35	12·88	Silver	·23	13·00	Silver	·07	13·16*	Silver
	13·99	·95	13·04	600,000.	·63	13·36*	ozs.	·44	13·55*	ozs.	·13	13·86*	ozs.
	14·57	2·87	11·70	Silver	1·91	12·66	11,312.	1·28	13·29*	2,980.	·38	14·19*	1,978.
	15·68	3·18	12·50	ozs.	2·14	13·50*	Per cent.	1·40	14·23*	Per cent.	·43	15·25*	Per cent.
	18·14	2·95	15·19	15,217.	2·00	16·14*	decline.	1·34	16·80*	decline.	·35	17·79*	decline.
	13·84	·96	12·88		·65	13·19*	Copper	·44	13·40*	Copper	·13	17·71*	Copper
	11·16	1·52	10·64		1·02	10·14	36.	·67	10·49	72.	·21	10·95	84.
	18·49	1·75	16·74		1·53	17·43*	Silver 26.	1·02	16·41*	Silver 80.	·32	18·17*	Silver 87.

* Too high cost for profitable operation with copper at 14 cents per lb. (Margin between sales price and cost necessary for such operation assumed to be at least 1 cent per lb.)

TABLE 6.—Smelter Production of Lead from Domestic Ore.

All mines in this group are producers of silver-lead ore.

—	1919.	1920.	1921.	1922.	1923.	1924.	Per cent. increase, 1923 over 1919.	Per cent. increase, 1924 over 1919.
WESTERN STATES.								
Alaska	645	591	773	324	400	582	−38·0	−9·8
Arizona	5,407	5,987	3,313	7,218	8,828	9,372	+63·3	+73·3
California	2,004	2,260	614	3,018	5,168	2,305	+157·9	+15·0
Colorado	18,867	17,752	12,104	11,108	23,885	25,491	+26·6	+35·1
Idaho	89,091	117,191	99,707	91,487	127,797	123,709	+43·4	+38·9
Montana	17,513	13,231	11,565	14,551	18,345	21,226	+4·8	+21·2
Nevada	5,958	8,650	3,553	4,264	8,044	8,070	+35·0	+35·4
New Mexico... ...	1,418	1,123	384	1,230	1,638	2,263	+15·5	+59·6
Texas	8	1	1	5	40	27	+500·0	+338·0
Utah	65,102	64,006	51,872	63,130	104,678	119,318	+60·8	+83·2
Washington	1,090	2,460	325	478	2,008	2,057	+84·2	+88·7
Total... ...	207,103	233,252	184,211	196,813	300,831	314,420	+45·3	+51·8
EASTERN STATES.								
Illinois	977	948	271	750	1,286	1,089	+31·6	+11·4
Kansas	7,951	8,421	10.939	10,900	20,207	12,895	+154·1	+62·2
Kentucky	83	114	41	73	66	201	−20·5	+142·2
Missouri	150,341	171,999	151,028	202,245	169,323	191,501	+12·6	+27·4
Oklahoma	49,984	68,494	46,902	67,436	59,602	56,017	+19·2	+12·1
Tennesse	2,371	2,705	—	751	1,020	985	−57·0	−58·5
Wisconsin	3,975	3,841	1,079	1,323	601	1,973	−84·9	−50·4
Total... ...	215,682	256,522	210,260	283,478	252,105	264,661	+16·9	+22·7
Grand Total ...	422,785	489,777	394,471	480,291	552,936	579,081	+30·8	+37·0

TABLE 7.

Production of Lead and Silver from principal Western Lead-Silver Mines.

Company.	1919.		1920.		1921.		1922.		1923.		1924.		Total Lead.	Total Silver.	Ratio Silver to Lead.	Lead per cent. increase, 1923/1919.	Lead per cent. increase, 1924/1919.
	Lead production.	Silver production.	Lead.	Silver.	Lead.	Silver.	Lead.	Silver.	Lead.	Silver.	Lead.	Silver.					
1... ...	3,423	583,542	4,255	906,016	3,975	1,124,584	4,949	1,037,240	5,503	1,084,977	3,905	956,141	26,010	5,692,500	218·9	160·8	114·1
2... ...	2,990	2,757,533	6,359	2,622,132	6,248	3,262,241	9,890	4,437,033	13,249	4,025,792	10,916	2,336,417	49,652	19,641,148	395·6	343·1	265·1
3... ...	12,126	817,161	20,811	1,161,614	27,409	1,723,702	28,157	1,457,299	33,682	1,581,334	37,709	1,679,394	159,894	8,420,504	52·7	177·8	211·0
4... ...	12,363	795,058	16,859	923,453	19,568	1,055,572	21,245	1,170,458	12,888	762,905	19,882	1,093,861	102,805	5,801,307	56·4	4·2	60·8
5... ...	—	—	—	—	—	—	5,685	1,090,418	10,404	1,445,299	11,743	1,132,351	27,832	3,668,068	131·8	—	—
6... ...	5,431	528,328	5,302	629,929	3,132	470,144	8,251	1,068,753	13,561	1,757,135	17,392	2,551,104	53,069	7,005,393	132·0	149·7	220·2
7... ...	3,080	1,829,170	6,758	2,194,373	5,709	2,584,977	8,093	2,177,029	20,295	3,614 294	26,732	4,025,463	70,667	16,425,306	252·4	558·9	767·9
8... ...	32,798	1,107,213	35,536	1,194,478	37,189	1,247,647	34,713	1,154,843	34,879	1,177,631	36,475	2,173,007	211.590	8,054,819	38·1	6·3	11·2
Totals.	72,211	8,418,005	95,880	9,631,995	103,230	11,468,867	120,983	13,593,073	144,461	15,449,367	164,754	16,147,738	701,519	74,709,045	106·49	100·1	128·2

Production of Lead and Silver from principal Lead-Silver Mines in Utah.

Company.	1919. Lead production.	1919. Silver production.	1920. Lead.	1920. Silver.	1921. Lead.	1921. Silver.	1922. Lead.	1922. Silver.	1923. Lead.	1923. Silver.	1924. Lead.	1924. Silver.	Total Lead.	Total Silver.	Ratio Silver to Lead.	Lead per cent. increase, 1923/1919.	Lead per cent. increase, 1924/1919.
1... ...	3,423	583,542	4,255	906,016	3,975	1,124,584	4,949	1,037,240	5,503	1,084,977	3,905	956,141	26,010	5,692,500	218·9	60·8	14·1
2... ...	2,990	2,757,533	6,359	2,622,132	6,248	3,262,241	9,890	4,437,033	13,249	4,025,792	10,916	2,536,417	49,652	19,641,148	395·6	343·1	265·1
5... ...	—	—	—	—	—	—	5,685	1,090,418	10,404	1,445,299	11,743	1,132,351	27,832	3,668,068	131·8	—	—
6... ...	5,431	528,328	5,302	629,929	3,132	470,144	8,251	1,068,753	13,561	1,757,135	17,392	2,551,104	53,069	7,005,393	132·0	149·7	220·2
7... ...	3,080	1,829,170	6,758	2,194,373	5,709	2,584,977	8,093	2,177,029	20,295	3,614,294	26,732	4,025,463	70,667	16,425,306	252.4	558·9	767·9
Totals.	14,924	5,698,573	22,674	6,352,450	19,064	7,441,946	36,868	9,810,473	63,012	11,927,497	70,688	12,201,476	227,230	52,432,415	230·7	322 2	473·7

TABLE 8.

Lead Companies.

—	Lead.		Silver.	Income from metals.			Operating expense, including depreciation and taxes.	Net operating income.	Cost per lb. of lead.	Silver credit per lb. of lead.	Net cost per lb. of lead.	Ozs. silver per short ton of lead.	Proportionate value of silver to net income.
				Lead.	Silver.	Total income.							
	1,000 lbs.	Short tons.	1,000 ozs.	$'000	$'000	$'000	$'000	$'000	Cents.	Cents.	Cents.		
1919									7·725	5·448	2·277	98·1	1,046·4
									30·237	25·545	4·692	459·7	728·4
									5·515	1·895	3·620	33·8	84·0
									32·370	33·734	1·364	593·8	354·0
									10·115	3·575	6·540	64·3	Loss
	109,299	54,650	4,744	6,021	5,329	11,590	9,579	2,011	8·764	4·876	3·888	86·8	265·0
1920									6·686	5·894	·792	118·8	209·7
									21·637	11·111	10·526	224·7	563·0
									6·844	1·818	5·026	33·6	63·0
									20·132	17·416	2·716	324·7	261·6
									8·055	2·752	5·303	54·8	112·5
	133,013	66,507	5,403	9,851	5,655	16,053	11,898	4,155	8·945	4·251	4·694	81·2	136·1
1922									4·554	4·945	·391	129·8	117·0
									13·406	11·913	1·493	239·9	170·3
									5·743	1·654	4·089	44·8	97·0
									15·625	13·376	2·249	269·0	343·7
									6·406	2·749	3·657	55·4	126·1
	150,181	75,091	6,671	8,372	5,988	14,659	10,771	3,838	7·172	3·987	3·185	88·8	156·0
Grand total ...	392,493	196,248	16,818	24,244	16,972	42,302	32,248	10,004	8·216	4·324	3·892	85·7	169·7

Typical Mexican Mines.

—	Lead.	Copper.	Copper expressed in terms of lead.	Total production in terms of lead.	Silver.	Income from metals.			Total income.	Operating expense.	Net operating income.	Cost per lb. of lead.	Silver credit per lb. of lead.	Net cost per lb. of lead.	Ozs. silver per short ton of lead.	Per cent. value of silver to net income.
						Lead.	Copper.	Silver.								
	1,000 lbs.	1,000 lbs.	1,000 lbs.	1,000 lbs.	1,000 ozs.	$'000	$'000	$'000	$'000	$'000	$'000	Cents.	Cents.	Cents.		
1919 ...												5·23	4·68	·55	154	202
1920 ...												7·99	4·08	3·91	158	Loss
1922 ...												6·01	4·58	1·43	186	357
	138,726	31,996	86,903	225,629	19,160	4,236	2,685	10,041	16,963	14,499	2,464	6·43	4·45	1·98	170	408

TABLE 9.

Zinc Companies.

Year.	Zinc.	Silver.	Income from metals.			Total operating expense, including depreciation and taxes.	Net operating income.	Cost per pound of zinc.	Silver credit per pound of zinc.	Net cost per pound of zinc.	Proportionate value of silver to net income.
			Zinc.	Silver.	All metals.						
	1000 lbs.	1000 ozs.	$'000	$'000	$'000	$'000	$'000	Cts.	Cts.	Cts.	
1919 ...								8·646	1·478	7·168	—
								4·416	1·135	3·281	140
								8·10	5·33	2·77	135
	204,950	5,096	9,691	4,509	14,870	12,667	4,403	6·18	2·20	3·98	102
1920 ...								9·504	1·821	7·683	—
								4·827	0·94	3·887	341
								6·59	2·37	4·22	63
	243,022	4,966	15,183	4,208	20,022	16,055	3,967	6·606	2·732	4·874	106
1922 ...								10·719	4·774	5·945	424
								3·339	0·724	2·615	634
								4·77	2·84	1·93	78
	231,276	6,392	10,505	5,444	15,939	11,830	4,628	5·115	1·176	3·939	118
1919, 1920, and 1922	679,248	16,454	35,379	14,161	50,831	40,552	12,998	5·970	2·085	3·885	109

TABLE 10.

Probable Production of the World made unprofitable by successive Decreases in the Price of Silver.

LEAD.

Price of silver.	Short tons.	Per cent. of world production.
50	97,000	6·7
$33\frac{1}{3}$	160,000	10·8
10	383,000	26·2

World's production 1924 = 1,457,000 tons.

COPPER.

Price of silver.	Short tons.	Per cent. of world production.
50	100,000 in U.S. No estimate made for foreign production.	6·7 from U.S. No estimate for foreign production.
$33\frac{1}{3}$	400,000	27
10	400,000	27

World's production 1924 = 1,500,000 tons.

TABLE 11.

Probable Percentage of Silver Production of the World made unprofitable by successive Decreases in the Price of Silver.

Price of silver, cts. per oz.	Dry and siliceous ores.	Copper-silver ores.	Lead-silver ores.	Total.
50	16	26	28	20
$33\frac{1}{3}$	80	80	36	58
10	100	87	75	79

Probable Silver Production in the World made unprofitable by successive Decreases in the Price of Silver.

Millions of Ozs. Fine.

Price of silver, cts. per oz.	Dry and siliceous ores.	Copper-silver ores.	Lead-silver ores.	Total.
50	15	13	19	47
$33\frac{1}{3}$	75	40	25	140
10	94	44	52	190

Total world's production - - - 240
Total silver accounted for - - - 220

APPENDIX 89.

Letter from Sir James Wilson, K.C.S.I., to the Secretary to the Royal Commission on Indian Currency and Finance, dated Annieslea, Crieff, Perthshire, the 8th September 1925.

I have the honour to submit, for the information of the Royal Commission, copies of (1) a paper on "Indian Currency and Exchange," which I read in February 1923 to the Economic Society of Edinburgh, and (2) an article on "Indian Currency Policy," which I am sending to the *Asiatic Review*, in the hope that the calculations I have made may be found useful.

Paper on "Indian Currency and Exchange," by Sir James Wilson, K.C.S.I., dated 31st January 1923.

It is with some diffidence that I venture to address this Society on such a complicated question as that of "Indian Currency and Exchange." I cannot claim to be a financial or a banking expert, and it is only as a humble student of economics that I approach this subject, which is of immense importance to the prosperity and welfare of the millions of India. It appears to me that the safest basis for the study of such a subject is to get hold and to keep hold of statistical facts, so as not to lose oneself in the clouds of theory, and I must ask you to bear with me while I put certain figures and calculations before you.

The Paper Pound Sterling.

In this country we are accustomed to see rates of exchange quoted in sterling. For nearly a century before the outbreak of war in 1914, a quotation in sterling meant a quotation in sovereigns or fractions of a sovereign, because all legal tender bank notes were freely convertible into sovereigns, which could be exported without restriction. The sovereign contains 113 grains of fine gold, while the United States gold dollar contains 23·22 grains; so that a sovereign exchanges for 4·87 gold dollars, and up till 1914 the rate of exchange between London and New York could not vary from this par rate by more than a small fraction above or below the cost of transporting gold from one country to the other, whatever the balance of trade might be. And as a matter of fact for many years up to that date the lowest point in the rate of exchange between London and New York was 4·77 dollars to the pound—a difference from par of a little over 2 per cent.

Immediately after the outbreak of war Parliament passed an Act authorising the issue of one pound Currency Notes and making them legal tender to the same value as a sovereign. The export of sovereigns from this country was at the same time forbidden, except under special permission from the Government. The effect of these provisions, which are still in force, was to make the Currency Note practically inconvertible into gold for the purpose of international exchange; and as a natural consequence the value of this practically inconvertible paper currency varied mainly according to (1) the relation between the demand for and supply of the notes, and (2) the ideas of financiers (including bankers, merchants and investors all the world over) as to the prospects of an increase or decrease in the note issue, and of the Currency Notes again becoming freely convertible into a sovereign. A credit in sterling therefore no longer meant a command over so many sovereigns, but only a command over so many currency notes; and the value of sterling in international exchange became subject to violent fluctuations. The best measure of those fluctuations is the rate of exchange with New York, because the United States have managed all through to keep their notes convertible; so that a credit in dollars has all through meant a command over so many gold dollars. Another measure of the value in gold of the British paper pound has been available since 1919, when the Government granted permission for the sale of South African gold bullion in London, with freedom to export. The two bases for an estimate of the value of the British paper pound in gold necessarily correspond closely day by day.

I append two statements, (1) giving the actual quotations on certain dates of prices and rates of exchange bearing on this subject, and (2) the corresponding values in grains of fine gold or of fine silver calculated on those quotations. All through the real basis of international exchange has been, and continues to be, gold; so that the common measure to which attention should be specially directed is the value of the different currencies in grains of fine gold. I take as one of my dates 31st

January 1920, because it was immediately after that date, namely, on 2nd February 1920, that the Secretary of State for India made his momentous announcement that he would aim at giving the rupee a fixed value in exchange of one rupee for 11·3 grains of fine gold—that is, one-tenth of the gold content of the sovereign. As the latest of my dates I have given the quotations for 31st January 1923, exactly three years after, and by way of comparison, to show the changes which have taken place during the last 12 months, I give the quotations for the corresponding date in 1922.

On 31st January 1920, the value of the British paper pound sterling, as shown both by the rate of exchange with New York and by the results of the sales of gold in London, with freedom to export, was at about its lowest, being then equivalent to 82 grains of fine gold—that is 72 per cent. of the 113 grains contained in a sovereign—in other words, it was worth only 14*s*. 5*d*. measured in gold. The British Government had, on the Report of the Cunliffe Committee, declared its intention to restore the free market in gold in London, which would necessarily lead to the restoration of the paper pound to the value of a sovereign, and had taken practical steps to make a gradual reduction in the quantity of paper currency outstanding, which again would necessarily tend to an improvement in the gold value of the paper currency unit. As a result of that policy, by 31st January 1922 the value of the paper pound had risen to 99·5 grains of fine gold, equivalent to 88·1 per cent. of the gold in a sovereign, and during the last 12 months there has been a further improvement, until on 31st January 1923 the price of gold in London gave the paper pound the value of 108·1 grains of fine gold, which is 95·7 per cent. of the 113 grains in a sovereign—an improvement of 8·6 per cent. in the last 12 months. We are now therefore within 5 per cent. of seeing the pound sterling valued in London, in New York, and therefore all the world over, as equivalent to a sovereign. One of the chief reasons for this marked improvement, which has a great effect in reducing the sterling prices of all articles imported from abroad and of all articles produced in this country which have to compete with them, has been the reduction in the quantity of Currency Notes outstanding. For instance, on 31st January 1922 the quantity of Currency Notes outstanding was £303 million and by the corresponding date this year it had been reduced to £279 million—a reduction of nearly 8 per cent. A further reason is the increase in the ratio of gold and bank notes held as a reserve against the currency notes to the total issue from 15·8 per cent. on 31st January 1922 to 17·3 per cent. on 31st January 1923. The chief reason, however, for the improvement is, no doubt, the growth of confidence throughout the world in the determination and ability of the British Government to restore at an early date the value of the legal tender currency note to that of a sovereign. In judging of the true meaning of the quotations during recent years, it is necessary to bear in mind the changes in the value of the sterling in which they are quoted, and the simplest plan is to reduce all such quoted prices to terms of grains of fine gold.

Indian Currency before the War.

For nearly a century the principal legal tender in India has been the silver rupee, weighing 180 grains and containing 165 grains of fine silver. Up to the year 1873 the world ratio between gold and silver remained in the neighbourhood of 15·5 ozs. of silver to 1 oz. of gold, and the quoted price of standard silver in London remained in the neighbourhood of the corresponding rate of 60·8*d*. per oz. British standard silver is 925 fine—that is to say, 1,000 ozs. of standard silver contain 925 ozs. of fine silver; so that this London price of standard silver meant a price of 65·7*d*. per fine oz. At that rate the value in gold of the 165 grains of silver contained in a rupee coin was in London 22·6*d*., and the exchange value of the rupee, though it fluctuated slightly from year to year, remained in the neighbourhood of that figure—not far short of 2*s*. to the rupee; so that it became a general idea that the rupee was worth about one-tenth of a pound, which would make it worth 11·3 grains of gold.

About 1873 Germany's demonetisation of silver and action taken in America and other countries led to a sudden increase in the world's demand for gold and diminution in the world's demand for silver. This caused a rapid fall in the gold value of silver, until in 1902 an ounce of gold would buy 39 ozs. of silver instead of 15·5, and the price of standard silver in London fell to 24*d*. per oz., at which rate the value in London of 165 grains of silver was only 9*d*. instead of 22·6*d*. During the first part of this period, while the Indian Mints remained open, and the rupee was thus still linked with silver, the exchange value of the rupee necessarily fell with

the fall in the value of the 165 grains of silver contained in it, until in 1892 the rupee was worth only 15*d.* instead of the traditional rate of 24*d.* In 1893, however, the Indian Mints were closed to the free coinage of silver, and for some years practically no addition was made to the number of rupee coins in existence, while the demand for them increased with the growth of India's prosperity and trade; so that the value in exchange of the rupee coin was no longer determined by the value of the 165 grains of silver contained in it, but, after falling to 13*d.* in 1894, steadily increased until it was stabilised at 16*d.* per rupee, or Rs. 15 to the sovereign, at which rate it remained until after the outbreak of war, although the value of the silver contained in it went down to less than 9*d.* in 1909. The closing of the Mints had thus resulted in unlinking the rupee from silver, and the success of the action taken to stabilise the rate of exchange at 16*d.* meant that the rupee was now a token coin linked with gold at the rate of Rs. 15 to the sovereign, or 7·53 grains of gold to the rupee.

Effect of the War.

When war broke out, many Governments took steps to collect as much gold as possible, and prohibited or greatly restricted the export of gold. India has always been anxious to secure as much as possible of the precious metals, and during the four years ending with 31st March 1914 she absorbed 88 million sovereigns' worth of gold—nearly one-fourth of the world's production for those four years. The war and the action taken by various Governments, including her own, greatly restricted the import of gold into India, and during the five years of war conditions her absorption of gold was only 30 million sovereigns' worth, whereas, had war not broken out, she would probably have absorbed during those five years something like 100 million sovereigns' worth of gold. Being thus starved of gold, the people of India demanded a great increase in the import of silver, and ultimately forced the Government to import immense quantities of silver and coin it into rupees. The Government found itself compelled to take steps to meet this demand, because it had greatly increased its issue of paper currency and locked up its currency and gold standard reserves to a large extent in securities which, owing to the war, could not be realised except at a serious loss; so that in order to maintain the convertibility of its paper currency, it had to issue rupees to meet the demand. In the year ending with 31st March 1919 the Government of India imported 236 million ozs. of silver, while the world's new production in that year was less than 200 million ozs. This excessive demand of India for silver, together with the demand from other countries, led to a very rapid rise in the world price of silver measured in gold, and on 31st January 1920 the price of silver in New York was 133 cents per fine oz., as compared with the average price in 1913 of 61 cents—that is to say, on that date an ounce of gold would only command in New York 15·5 ozs. of silver, whereas in 1913 it commanded 34 ozs. On the same date the quoted price of standard silver in London was 83*d.* per oz., while in 1913 the average price was 28*d.* On the same day gold sold in London at 117*s.* sterling per oz., as compared with the 85*s.* per oz. at which it sold before the issue of the practically inconvertible paper currency; so that in London on that day the ratio between gold and silver was 15·7 to 1—or nearly the same as in New York.

In India, during the war and for some time after the Armistice, while the import of gold was severely restricted, and silver was imported in immense quantities, the value of gold measured in silver or in rupees naturally rose very rapidly with little regard to the ratio between them in the world outside. Before the war the price of gold remained practically constant at about Rs. 24 to the tola of 180 grains—that is 7·5 grains to the rupee—and the price of the sovereign was Rs. 15. But in the beginning of September 1919 gold was selling in Bombay at Rs. 32 per tola (5·6 grains to the rupee), which would give the price of the 113 grains of fine gold contained in the sovereign as Rs. 20. In September 1919 the Government of India began to sell considerable quantities of gold in the open market, with the effect of bringing down the price of gold by 31st January 1920 to about Rs. 27 per tola—that is, 6·7 grains to the rupee; while on the same date, owing to the great increase in the value of silver as measured in gold, chiefly caused by India's excessive demand for silver for purposes of coinage, the rupee was quoted in London at 28*d.* sterling (compared to the pre-war rate of 16*d.* per rupee). When allowance is made for the low gold value of the pound sterling, which was then equivalent only to 72 per cent. of the sovereign, this means that on 31st January 1920 a rupee would buy in London 9·6 grains of fine gold, while in India, owing to the restricted supply of gold,

rupee would only buy 6·7 grains; and on that date, while both in London and in New York an ounce of gold would buy only about 15·5 ozs. of silver, it would in India buy 23·5 ozs.

Secretary of State's Announcement.

On 2nd February 1920—that is, about three years ago—the Secretary of State for India surprised the world by announcing that he would aim at giving the rupee a fixed value in exchange of Re. 1 for 11·3 grains of fine gold—that is, one-tenth of the gold content of the sovereign; that the sovereign would be made a legal tender in India at the ratio of Rs. 10 (instead of the pre-war ratio of Rs. 15) to one sovereign; that the import and export of gold would soon be freed from Government control; and that the prohibition on the private import and export of silver would be removed in due course. This announcement had an immediate effect in greatly reducing the price of gold in India expressed in rupees, and by 19th February 1920 the value of the sovereign coin in India had fallen from Rs. 17 to Rs. 15, at which rate it was then still legal tender. On 20th June 1920 the Government of India announced that the restrictions over imports of gold bullion were removed; that sovereigns would cease for the time to be legal tender; and that they would submit a Bill prescribing the new ratio of one sovereign to Rs. 10, at which the sovereign would again become legal tender. (The necessary Act was passed on 15th September 1920.) Accordingly, since 12th July 1920 there has been no restriction on the import into India of either gold or silver bullion or sovereigns, and India has been able to obtain as much as she wants either of gold or of silver. Her excessive demand for silver, which was largely due to her being prevented from getting as much gold as she wanted, has now ceased; and as other countries also, such as China and South America, had been prevented from obtaining the gold they wanted and were now able to satisfy their requirements and thus increase the world's effective demand for gold, while at the same time reducing its effective demand for silver, the consequence of this removal of restrictions was a rapid fall in the value of silver as measured in gold, and an equalisation of the ratio between gold and silver all the world over. By 31st January 1922 that ratio, which in 1913 was about 34 to 1, and on 31st January 1920 was 15·5 to 1 both in London and in New York, but 23·5 in India, had become about 31 to 1 in all three countries. According to the quotations it is still at about that figure—that is to say, at present pretty well all the world over an ounce of gold exchanges for about 31 or 32 ozs. of silver, which is not a very different ratio from that which prevailed in 1913, when it was 34 ozs. of silver to 1 oz. of gold. This change in the value of silver as measured in gold can perhaps be best understood from the New York prices of foreign silver in cents per fine ounce, which were in 1913, 61 cents; on 31st January 1920, 133 cents; and on 31st January 1923, 64·8 cents—that is, much the same as in 1913. The London prices, which are quoted in pence sterling per ounce 925 fine, were: in 1913, 28*d.*; on 31st January 1920, 83*d.*; and on 31st January 1923, 31·4*d.*—again not much above the 1913 price.

Changes in the Value of the Rupee.

In India, when, owing mainly to her excessive demand for silver, the world price of silver measured in gold rose very rapidly, the value in international exchange of the rupee coin, which had been much below the value of the 165 grains of fine silver contained in it, naturally rose with the rise in the value of silver bullion until on 31st January 1920 the rupee was quoted in London at 28*d.* sterling, as compared with the 16*d.* at which it had long stood up to the outbreak of war—that is to say, the value of the rupee in pence sterling had nearly doubled, and, as already said, it was on that date worth in London 9·6 grains of fine gold, as compared with the 7·5 grains it was worth up to 1914. But when, owing to the removal of the restrictions on the movements of gold and silver bullion throughout the world, the effective demand for gold increased and the effective demand for silver decreased, so that the value of silver, whether measured in gold or in sterling or in rupees, fell greatly, the bullion value of the rupee fell along with it. For some time the value of the rupee in international exchange corresponded closely with the value from day to day of the 165 grains of silver contained in it; so that for the time being the rupee was again linked with silver, as it had been before the Indian Mints were closed to coinage in 1893. As the gold value of silver fell, so did the value of the rupee in international exchange, until on 23rd May 1921 the London rate of exchange was only 15*d.* to the rupee; and as on that date the British paper pound was worth only 81 per cent. of the gold in a sovereign, this price of the rupee was equivalent to little more than 12*d.*

measured in gold—that is to say, it was then worth in London only about 5·6 grains of fine gold, as compared with the 7·5 grains it was worth before the war, and with the 9·6 grains it was worth in London on 31st January 1920—only 16 months before. Since then the value of silver has risen somewhat, as is shown by the rise in the New York quotation for foreign silver, which has risen from 59 cents on 23rd May 1921 to 64·8 cents on 31st January 1923; and there is no doubt this had some effect in raising the value in exchange of the rupee; but the rupee is no longer closely linked with silver, as it has not closely followed the price of silver in its downward course. On 31st January 1922 the exchange value of the rupee in London was 15·6*d.* sterling, or much the same as it was before the war, as compared with the 28*d.* which it had reached on 31st January 1920, before the announcement of the Secretary of State's new policy. On 31st January 1923 it was 16·5*d.* sterling, or little above what it was a year before or in 1913. But it is to be remembered that a penny sterling does not now mean the 240th part of the gold in a sovereign, but the 240th part of the value of a paper pound, and, as the paper pound is now worth 95·7 per cent. of the sovereign, this means that on 31st January 1923 the value of the rupee measured in gold in London was only 15·8*d.*, as compared with 16*d.* before the war. Still this is a substantial improvement on its value a year ago, which, measured in gold, was then 13·7*d.* During the last 12 months the rupee has risen in gold value along with the rise in the gold value of the British paper pound. In other words, on 31st January 1923 the rupee was worth in London 7·4 grains of fine gold, as compared with the 7·5 grains it was worth before the war, and as compared with the 9·6 grains it was worth in London on 31st January 1920, and with the 6·5 grains it was worth a year ago. Thus the rupee has nearly attained the value in international exchange as measured in gold which it possessed before the war, but is still very far short of the value of 11·3 grains of fine gold aimed at by the Secretary of State in his announcement made three years ago. In 1913 the rupee, which was then a mere token coin representing one-fifteenth of the gold in a sovereign, although it contains only 165 grains of fine silver, bought either in London or in India about 255 grains of silver. On 31st January 1920, when there was such an excessive demand for silver in India, it bought only about 157 grains, but on 31st January 1923 it bought in London 233 grains, in India about 217 grains—that is to say, it bought enough fine silver to make 1·31 rupee coins, and to that extent it has become unlinked from silver.

India's Stock of Gold and Silver.

From time immemorial India has been a great absorber of the precious metals. From 1835 to 1919 India imported net £316 million worth of gold, of which more than half was imported since 1900. I reckon that at present the quantity of gold in the possession of mankind is about 1,000 million ozs.—enough to make 4,250 million sovereigns—and that of this quantity India possesses about 100 million ozs.—about one-tenth of the world's total stock. And as less than 6 million ozs. is in the Government Treasury, nearly the whole of this large quantity is held by the people in the form of ornaments or hoarded coin or bullion. During the five years before the war she was absorbing on the average 5 million ozs. per annum—nearly one-quarter of the world's new production. During the war she was only allowed to absorb an average of less than 2 million ozs. per annum; but, when the restrictions on the movements of gold were relaxed, she at once took advantage of her recovered liberty, and during the 12 months ending with March 1920 absorbed 6 million ozs. This, apparently, satisfied her demand for the time being, as during the following 12 months she absorbed less than 1 million ozs., and, partly no doubt owing to the poor harvests in 1920–1, she during the 12 months ending with March 1922 exported net half a million ozs. More recently, however, she has again begun to outbid the United States for the gold available in the London market, this change being no doubt partly due to last year's good harvest and the prospect of another good harvest next May. During the calendar year 1922 India imported from this country alone gold to the value of £12·8 million—about 3 million ozs.—besides 46 million ozs. of silver. The total quantity of gold held in India includes nearly 100 million coined sovereigns, which before the war were legal tender at the rate of Rs. 15 per sovereign, and were coming into circulation, especially in the Punjab. But now that they have been made legal tender for only Rs. 10, in accordance with the Secretary of State's policy, the sovereign is no longer in circulation in India, because no one will tender it for Rs. 10 when he can get for it in the Bazaar over Rs. 16. For the time being, therefore, gold, even in the form of sovereigns, is out of the reckoning as regards circulation.

India also contains an enormous quantity of silver, much of it in the form of ornaments. From 1835 to 1919 she imported net 2,900 million ozs., more than one-third of the world's production during that period. But, as the Mints have for the last 30 years been closed to the coinage of silver, except on Government account, the uncoined silver is not available for purposes of circulation. Practically, therefore, the currency available for circulation includes only the coined rupees and the Government's currency notes. The success attained before the war in keeping the exchange value of the rupee stable at 16*d.* gold was due to the closing of the Mints and the consequent limitation in the number of papers available for circulation, while owing to the increase in India's trade and prosperity, the demand for rupees rose, until the rupee was worth much more than the value of the silver contained in it. It could not rise except by a fraction above 16*d.*, because the Government was bound to accept a sovereign as the equivalent of Rs. 15; so that if at any time the exchange value of the rupee rose above 15*d.*, it would have paid to import sovereigns into India and to pay debts in sovereigns instead of in rupees. Even before the war the Government of India, tempted, no doubt, by the great profit it could secure by coining cheap silver into rupees, each of which could be issued as a token coin equal in value to one-fifteenth of a sovereign, added greatly to the rupee coinage, and during the 14 years ending with 1913 no fewer than 1,600 million new rupees were coined. Then when, as already explained, the Government of India, in consequence of the restrictions on the import of gold during the war, found it necessary in order to maintain the convertibility of its note issue to obtain immense quantities of silver from abroad and coin it into rupees, during the three years ending with 31st March 1919 the net coinage amounted to no less than 1,034 million rupee coins, making a gross addition to the silver currency since the beginning of the century of over 2,600 million rupee coins. It is unlikely that any large number of these coins have been melted and turned into bullion or ornaments, because the 165 grains of silver contained in the rupee coin could generally be bought in the Bazaar at much less cost than Re. 1. Making allowance on the one hand for the quantity of rupees in India in the year 1900 and for the number of rupees melted since, it may be estimated that there are at present in existence about 4,000 million rupee coins. A very large number of these coins are hoarded by the people, but if it became worth their while to spend them, might become available for circulation. When the harvests are good and the people are prosperous they hoard rupees in large numbers. When the harvests are poor they produce their hoarded rupees and send them into circulation; so that the quantity of rupees in actual circulation is apt to vary from time to time, partly for this reason and also in consequence of changes in the level of prices measured in rupees.

Currency Note Issue.

While the Government of India have thus added greatly to the number of rupee coins in existence, they have also greatly increased the quantity of currency notes in circulation, as will be seen from the following statement:—

Indian Paper Currency Reserve (Millions of Rupees).

—	31st Mar. 1914.	31st Dec. 1921.	31st Dec. 1922.	22nd Aug. 1925.
Note circulation	661	1,725	1,742	1,871
Reserve:—				
Silver coin and bullion in India	205	740	866	877
Gold coin and bullion in India	224	243	243	223
Gold coin and bullion in England	92	—	—	—
Government of India securities	100	684	574	571
British Government securities	40	58	59	200
	661	1,725	1,742	1,871

The total note circulation has increased from Rs. 661 millions on 31st March 1914 to Rs. 1,742 millions on 31st December 1922—that is to say, it has nearly trebled. If my estimate of 4,000 million rupee coins as the quantity now in existence in India is correct, this means that the total amount of legal tender money, apart from gold, now in India is about 5,700 million rupees—or about Rs. 18 per head of population. The addition to the quantity of rupees and notes since 1914 has been approximately—rupee coins 1,034 million, notes to the value of 1,081 million, total Rs. 2,115

million. It is true that a very large proportion of these rupees and notes are either held in reserve by Government or are hoarded by the people, and I see that Mr. Findlay Shirras, in his book on "Indian Finance and Banking," estimates that on 31st March 1919 the active circulation of rupees and notes was Rs. 3,620 millions, which gives an average per head of Rs. 11·4, as compared with 7·5 in 1914. But the whole of the rupees and notes in existence in India could be made available for purposes of circulation if the holders were willing to use them for that purpose. My point is that at present gold is practically out of circulation in India, and the rupee coin is no longer linked either with gold or with silver, but, so far as international exchange is concerned, is merely an inconvertible unit of currency subject to the law which regulates all inconvertible currencies—that is to say, liable to change in its value measured in gold according to changes in the relation between the total available supply of the currency and the total effective demand for it—and that the total available supply of this inconvertible currency has in recent years been enormously increased.

When the people of India have more rupees than they have an immediate use for, whether for purposes of circulation or hoarding, the rupee coins flow back into the Government Treasuries, and, as will be seen from the above statement, the quantity of silver coin and bullion held in the Currency Reserve in India has increased from Rs. 205 million on 31st March 1914 to no less than Rs. 866 million on 31st December 1922—more than one-fifth of all the rupee coins in existence—the increase during the past year being Rs. 126 million, which affords strong evidence that the total amount of rupees and notes is at present much larger than India really requires for all purposes. It is unfortunate that the Government of India should have felt itself compelled in the three years ending with 31st March 1919 to coin over 1,000 million new rupees and so add to the total of legal tender money in existence. It was compelled to do so in order to maintain the convertibility of its immense issue of currency notes, and the mistake apparently was to allow the quantity of currency notes in circulation to reach such a high figure. It is usually supposed that a bank or a Government makes a profit out of its note issue, and to a certain extent this is true, but in the case of India there must have been a serious loss to the Government from its excessive issue of notes. It was compelled, in order to maintain the convertibility of the notes, to purchase an immense quantity of silver from outside India (mainly from the United States), at a time when silver as measured in gold was excessively dear. The coinage of over 1,000 million rupee coins in those three years must have cost a large sum apart from the cost of the silver, and now the Government of India has to store and guard 866 million rupee coins, besides gold coin and bullion to the value of 24 million sovereigns, and to find the interest on the 574 million rupees' worth of Government of India securities held in the Currency Reserve. Altogether, if a calculation were made, it would probably be found that during the last eight years the Government of India's increased issue of currency notes has involved it in a serious net loss.

The Gold Standard Reserve.

Since the Mints were closed to the free coinage of silver in 1893, the cost of the 165 grains of silver contained in the rupee coin has generally been much below Re. 1, so that a large profit has accrued to the Government from the coinage of new rupees on Government account. This profit has been placed to what is called the Gold Standard Reserve, to which also the interest on the accumulated funds is carried. This reserve, which on 31st March 1914 amounted to 25·5 million pounds, is now (31st December 1922) £40,000,000 sterling, practically all held in short-dated British Government securities. The existence of this reserve has no doubt helped to give a feeling of confidence, but it has so far had very little effect on the rate of exchange.

India's Balance of Trade.

In estimating India's balance of trade it is necessary to include imports of Government stores into India, because India has got to pay for them by exports. It is also necessary to include the large imports of gold and silver, whether on Government or private account, because they also have to be paid for by exports from India, and because the gold and silver are imported into India not so much in order to adjust the balance of trade as to meet the demand of the Indian people for the precious metals for the purposes of ornaments and hoarding. So reckoned, the average visible net exports of merchandise from India for the five years ending with 1913–1

were 48·4 million pounds, and the average net import of treasure during those five years was £26,000,000. Putting merchandise and treasure together the average net export was 22·4 million pounds. These figures represent the visible exports and imports, but India has to pay each year a large sum in addition to the value of the visible imports for the year, representing (1) interest on capital belonging to residents in foreign countries which has been invested in India, whether by way of loan to Government or to private companies, or to establish industries in India; (2) payment for services rendered to India by foreigners, whether in the Army or the Civil Services, or in private capacities, such as shipping, banking, insurance, and industrial undertakings, in so far as the remuneration for such services is payable outside India, or is remitted to other countries by residents of those countries, or is payable by way of pension to foreigners who have returned to their own countries and who take payment of their pensions outside India. All these payments have to be made by India in the form of an excess of visible exports over visible imports. On the other side would have to be reckoned any new investments made in India during the year. But in ordinary times these invisible imports are much less than the invisible exports, and this is the main reason why on the average of the five years before the war India's visible exports exceeded India's visible imports, including treasure, by 22·4 million pounds; and why in ordinary course it is to be expected that India's visible exports will greatly exceed her visible imports.

Council Draft.

A large proportion of the payments which have to be made by India to foreign countries on such accounts, which are not counterbalanced by visible imports during the year, are made through the Secretary of State for India in London, through whom has to be paid the interest due by the Government of India to British investors who have lent money to the Government of India on terms requiring them to be paid the interest in London, and through whom have to be paid claims for the services of the British Army in India, and pensions and leave allowances payable to officers both of the Army and of the Civil Services who have returned permanently or temporarily to this country. These payments, which have to be made by India through the Secretary of State in London, amount to a large sum, approximating in ordinary times to £25,000,000 per annum. In order to obtain funds to make them the Secretary of State many years ago established a system of selling Council Drafts—that is, orders for the payment in India from the Government Treasury of so many rupees, which are sold in the open market in London in return for credits in sterling payable in London, which are paid to the Secretary of State in London by the purchasers of the Drafts in return for the orders which they require to enable them to obtain rupees in India to pay there for exports from India, or to meet other debts payable in India. On the average of the five years ending with 1913–4 the Council Drafts paid in India amounted to 27·6 million pounds. From the point of view of the balance of trade these Council Drafts are of the nature of invisible exports from India which go towards adjusting India's indebtedness to foreign countries, although nothing passes between England and India, except bits of paper, which enable the Secretary of State to pay India's debts in London in sterling by an actual payment of rupees from the Treasury in India. That is to say, they are transfers of credit. In selling Council Drafts the Secretary of State generally fixes the amount he is willing to sell and the lowest rate he is willing to take, and accepts up to that amount the best offers he can get in the London market. There are other ways in which a merchant who has to pay for goods in India can obtain Indian exchange, and if the Secretary of State were to offer Council Drafts at a minimum rate materially above the market rate of the day, he would get no demand for them. On the other hand, if the minimum rate that he offers to take is more favourable than the market rate, merchants and others requiring a credit in rupees in India compete for the Drafts and in this way the Secretary of State is able to obtain a fair rate. He has, however, very little power by selling Council Drafts to force the rate of exchange permanently either up or down. That depends upon the value in international exchange of the British pound sterling, which is at present practically inconvertible, and of the Indian rupee coin, which is also at present inconvertible into gold at any fixed rate, and on the relation between the demand for credit in India and the supply of it, which varies from day to day according to the course of trade. As a matter of fact for some time past the sale of Council Drafts had been stopped and the market and the Secretary of State and the merchants got along without them. Recently the

Secretary of State has resumed the sale of Council Drafts, and on 23rd January sold 75 lakhs of rupees at about 17*d.* sterling, or almost exactly 16*d.* measured in gold.

In 1920, in the vain endeavour to stem the rapid fall which, as already explained, was then taking place in the exchange value of the rupee, the Secretary of State sold in India Reverse Councils (that is, Drafts payable in sterling in London by the Secretary of State in return for rupee credits paid to the Government in India), at rates much more favourable than merchants were able to obtain in the open market. The loss incurred by the Government of India in this futile attempt to regulate the exchange amounted to 28 crores of rupees—over £18,000,000 sterling.

One beneficial effect of the great rise which took place in the gold value of the rupee (owing mainly to India's urgent demand for silver), combined with the restrictions placed upon the export of cereals from India, was that the rise of prices, which caused so much hardship and disturbance in this country, was felt much less in India, though there too it was considerable. In July 1920, when the Index Number for the cost of living in this country (taking the cost in July 1914 at 100) was 255, it was in Bombay only 189; in October last the Index Number for cost of living in this country was 180, while in Bombay it was 162.

The Babington-Smith Committee of 1919.

An admirable and authoritative explanation of the Indian Currency System and its Developments will be found in a paper written by my old friend, the late Sir William Meyer, who was Finance Minister in India during the war, and published in the Journal of the Royal Society of Arts for 30th April and 7th May 1920. That paper gives a summary of the Report of the Babington-Smith Committee on Indian Exchange and Currency, which was submitted towards the end of 1919, and formed the basis of the Secretary of State's announcement of February 1920. But it is to be remembered that, when Sir William Meyer wrote the paper, the gold price of silver, and therefore the exchange value of the rupee, were still very high. Probably if that Committee were again to sit and to take into account the fall which has since taken place in the gold value of silver and in the exchange value of the rupee, their recommendations would be very different from what they then were. The great mistake they made was in supposing that the gold value of silver would continue at such a high rate as to support a rate of exchange of the rupee much higher than the 16*d.* which had been the standard for a number of years before the war. As I have already pointed out, at the date of the Secretary of State's announcement in February 1920 the price of silver per ounce 925 fine was in London 83*d.* sterling, as compared with 28*d.* in 1913, and was in New York 133 cents per fine ounce, as compared with 61 cents in 1913. Both quotations gave the ratio of gold to silver as then about 15·5 ozs. of silver equal to 1 oz. of gold, while in 1913 the ratio was 34 to 1. On that date in 1920 the exchange value of the rupee was 28*d.* sterling, as compared with 16*d.* before the war. Now the price of silver has fallen to 31·4*d.* sterling per standard ounce and to 64·8 cents per fine ounce, both of which quotations make the ratio of gold to silver about 32 to 1, as compared with the pre-war ratio of 34 to 1, and the exchange value of the rupee is now not much above 16*d.* sterling—the pre-war rate. If the Babington-Smith Committee had foreseen that the price of silver and the exchange value of the rupee would fall so rapidly within the next three years, it is very improbable that they would have encouraged the Secretary of State to aim at making the rupee worth 24*d.* in gold.

I may be pardoned if I recall that, in a memorandum dated 17th July 1919, submitted to the Committee, I pointed out the likelihood of a fall in the demand for silver that would take place so soon as the restrictions on movements of gold were removed, and said that by 1922 the price of silver (which was then 53*d.* per oz.) might be as low as 30*d.* On 15th December last it was quoted in London at 30·4*d.*, so that my warning has proved to have been well-founded. At the same time I recommended that the Government of India should announce that it would make it its aim to restore the exchange value of the rupee to 16*d.*—that is, to one-fifteenth of a sovereign, or 7·53 grains of gold, as the policy most likely to be successful and fairest to all the interests concerned. The course of events adds strength to that proposal.

When the price of silver falls so low that the cost of making a rupee coin is much below the value of the coin in exchange either with gold or with commodities, there is a temptation to the Government to issue new rupee coins in order to obtain the profit on coinage. There is also a temptation to coiners to issue counterfeit rupees of the same fineness as the standard rupee, and therefore difficult to detect. At the present

price of silver in Calcutta anyone in India can buy the 165 grains of fine silver required to make a standard rupee for 12 annas, and if he can succeed in making and issuing a false rupee of the standard fineness he will get 16 annas for it—a profit of 33 per cent. on the cost of the silver, less the costs of alloy, manufacture and issue. Before the war there was a similar temptation to issue false coinage, which was only counteracted by severe penalties, and it is obvious that the greater the difference between the exchange value of the rupee and the value as bullion of the silver contained in it, the greater will be the temptation to attempt to counterfeit the coinage.

The future Price of Silver.

It seems probable that there will soon be a further fall in the value of silver, whether measured in gold or in rupees or in commodities. In the United States in 1918, mainly in order to meet the needs of the Indian Government, a measure was passed called the "Pittman Act," authorising the sale by the American Government to other Governments of up to 350 million silver dollars from the holdings in her Reserves, and of this amount no less than 200 million dollars were allotted to India at a price of 101½ cents per fine ounce. Altogether under the Pittman Act the amount of silver sold from the United States Reserves was 208 million ozs., and, in accordance with the provisions of that Act, this amount has had to be replaced in the Reserves by the purchase of silver mined in the United States at the price of 1 dollar per ounce. That is the reason why one sees in the daily quotations two prices given for silver in New York. For instance, on 31st January last, while American mined silver was quoted at 99⅝ cents, foreign bullion was quoted at only 64¾ cents per fine ounce. It is the so-called foreign bullion quotation which gives the world price of silver other than the favoured silver mined within the United States. Of the 208 million ozs. to be so replaced, 149 million ozs. have been bought, leaving a balance of 59 million ozs., which, at the rate at which purchases have recently been made, should be completed next autumn. Thereafter, unless new legislation is passed in the United States, the whole of the American produce will have to compete with the rest of the world production in a free market, and will be added to the world's available supply of silver. At the same time the world's demand for silver is likely to go on decreasing. Our own Government, having reduced the quantity of fine silver in the silver coinage, has become a seller of silver. The Indian Government, having an enormous number of rupees lying in its Reserve Treasury, is unlikely to resume coinage for years to come. On the whole it seems probable that there will be a further fall in the world price of silver, and that the price in New York, which is at present about 65 cents per fine ounce, will fall below the price of 61 cents per fine ounce, which was that of 1913; and it is to be remembered that so recently as 1915 the price of silver in New York was only 51 cents per fine ounce. Similarly the price of standard silver 925 fine in London, which is now about 31*d.*, seems likely soon to fall below the 28*d.* which was its price in 1913, and may even fall as low as the 24*d.* sterling which was its quoted price in 1915. Any fall in the price of silver that may take place will increase the temptation to issue counterfeit rupees, and any further rise in the exchange value of the rupee coin, whether or not it is accompanied by a fall in the present price of silver, will also increase that temptation and make it more and more difficult to maintain the exchange value of the rupee.

Conclusion.

To sum up, the present position as regards the rupee is that it is no longer, as it was before the war, a mere token coin representing one-fifteenth of the gold in a sovereign—that is, 7·5 grains of fine gold. It is now the unit of a currency inconvertible into gold at any fixed rate, and its present value in gold is in London about 7·4 grains—or very nearly what it was before the war, notwithstanding the Secretary of State's announcement of policy three years ago that he would aim at making it equal to 11·3 grains. It is now (on 31st January 1923) worth in sterling about 16·5*d.*, which is equivalent to 15·8*d.* measured in gold—only a fraction short of its pre-war value of 16*d.* measured in gold. The Secretary of State's *brutum fulmen* of 1920, although at the time it had a disastrous effect in making many people believe that the gold value of the rupee would remain at something like 24*d.*, or one-tenth of a sovereign, and act on that belief, has now no practical influence on the rate of exchange. As in the case of all inconvertible currencies, the value of the rupee, whether measured in gold or in commodities, now varies according to the relation between the demand and supply of rupees and the demand and supply of gold or of commodities. The supply of rupees, whether in the form of coins or

currency notes, has been very greatly increased in recent years by the action of the Government of India, and this must have a great effect in keeping down the exchange value of the rupee. Now that the Government of India have stopped the coinage of more rupees and the issue of additional currency notes, the supply of legal tender currency in India is practically stationary, and the recent rise in the exchange value of the rupee measured in gold must be due to an increase in the demand for rupees whether for the purposes of currency or for hoarding, much in the same way as the value of the rupee gradually rose after the Mints were closed to free coinage in 1893. But it is possible, though it is to be hoped not probable, that a decrease in the demand for rupees, whether owing to bad harvests in India or to any other cause, may lead to a fall in the exchange value of the rupee. Apart from any such calamity, or from the appearance in circulation of any large proportion of the enormous amount of rupees at present hoarded by the people of India, it seems possible that an increasing demand for rupees may lead to a further improvement in its exchange value, unless the Government of India are so ill-advised as to increase the supply, whether of rupees or notes. But it is evident that any such improvement in the exchange value of the rupee must be a very slow one, and it is impossible to imagine that for many years to come the rupee will rise in exchange value to the Secretary of State's figure of 11·3 grains to the rupee—that is, one-tenth of a sovereign.

A further rise in the exchange value of the rupee would be favourable to Indian finances in so far as India has to pay external debts in gold or in sterling. It would also tend to cause a fall in prices measured in rupees in India, and would therefore be favourable to all who receive salaries or wages fixed in rupees, and to all creditors in India whose credits are fixed in terms of rupees. On the other hand, it would be unfavourable to all producers of commodities in India, and especially to the great mass of the agricultural population who have produce to sell, and to all debtors in India whose debts are fixed in rupees. On the whole it seems to me that the fairest and most practical solution of the question would be to abandon the attempt to raise the value of the rupee to anything like 11·3 grains of fine gold, and to aim at the permanent re-establishment of the pre-war rate of 7·5 grains of fine gold —that is, one-fifteenth of a sovereign, or 16*d.* per rupee measured in gold. I think that the Secretary of State should announce this to be his policy, and that the Government of India should pass an Act declaring that the sovereign shall again be legal tender for Rs. 15. This would prevent the gold value of the rupee from rising above one-fifteenth of a sovereign and might lead to the reappearance of the sovereign as part of the currency in circulation in India. Whether the Government of India would be able to keep the value of the rupee up to one-fifteenth of a sovereign would depend upon the relation between the supply of rupees and the demand for them. It would be assisted to keep that level, if it were to take steps to reduce the supply of currency notes and were to accumulate still more rupee coins in its Reserve Treasuries. This is an expensive measure, and it is somewhat absurd to see 866 million rupee coins lying uselessly in the Treasuries; but it is so important to stabilise the exchange value of the rupee, whether at one-fifteenth of a sovereign or at some other figure, that it would be worth while to submit to some comparatively small loss, such as would be incurred by reducing the note circulation or even by melting a large number of rupees and selling them as bullion, and some action of the sort should now be taken. If this were done, there is reason to hope that the rupee would at once be again stabilised at its pre-war value of one-fifteenth of the gold in a sovereign, to the great advantage of India's trade and to the interests of justice as between creditors and debtors.

QUOTATIONS.

Quotations.	Where quoted.	In 1913.	31st Jan. 1920.	31st Jan. 1922.	31st Jan. 1923.
Pound sterling in dollars	London	4·87	3·505	4·279	4·648
	New York	4·87	3·522	4·272	4·648
Price of gold per fine ounce in shillings sterling	London	85	117	96·5	88·8
Price of silver in pence sterling per ounce 925 fine	"	28	83	35·2	31·4
Price of silver (foreign) in cents per fine ounce	New York	61	133	66·1	64·8
Exchange value of rupee in pence sterling	London	16	28	15·6	16·5
Price of gold in Calcutta in rupees per tola of 180 grains fine.	Calcutta	24	27	28·6	26·6*
Price of silver in Calcutta in rupees per 100 tolas of 180 grains fine.	"	70	115	93·0	82·9*

NOTE.—The sovereign contains 113 grains of fine gold; the dollar contains 23·22 grains of fine gold; and the rupee contains 165 grains of fine silver. An ounce of gold or silver is 480 grains.

* 10 January 1923.

VALUE OF THE RUPEE MEASURED IN GOLD AND SILVER.

——	In 1913.	31st Jan. 1920.	31st Jan. 1922.	31st Jan. 1923.
Value of the pound sterling in grains of gold	113	82	99·5	108·1
Value of the pound sterling as a percentage of the sovereign.	100	72	88·1	95·7
Value of the sovereign (113 grains of gold) in rupees—				
In London	15	11·9	17·5	15·2
In India	15	17	17·9	16·7
Value of the rupee in grains of gold—				
In London	7·5	9·6	6·5	7·4
In India	7·5	6·7	6·3	6·8
Value of the rupee in pence sterling in London	16	28	15·6	16·5
Value of the rupee in pence measured in gold in London.	16	20	13·7	15·8
Value of the rupee in grains of silver—				
In London	253	149	197	233
In India	257	157	194	217*
Ratio of gold to silver—				
In New York	34	15·5	31·3	31·9
In London	34	15·7	30·5	31·4
In India	34	23·5	30·8	32·1*

* 10th January 1923.

Article on "The Indian Currency Policy," by Sir James Wilson, K.C.S.I., dated 8th September 1925.

On 31st August 1925 the quotations were as follows:—In London: price of gold, 84·96*s.* per fine ounce; price of silver per ounce 925 fine, 32·88*d.*; rate of exchange of the rupee, 18·16*d.* In New York: the pound sterling, 4·855 dollars; price of fine silver, 71·75 cents per ounce. In Bombay: on 11th August gold was quoted at Rs. 21·44 per tola of 180 grains, the sovereign at Rs. 13·83, and fine silver at Rs. 72·4 per 100 tolas. These quotations give the following values:—

VALUE OF THE RUPEE MEASURED IN GOLD AND SILVER.

——	In 1913.	31st Jan. 1920.	31st Jan. 1922.	31st Jan. 1924.	31st Aug. 1925.
Value of the pound sterling in grains of gold	113	82	99·5	99·3	113
Value of the pound sterling as a percentage of the sovereign.	100	72	88	87·9	100
Value of the sovereign (113 grains of gold) in rupees—					
In London	15	11·9	17·5	15·9	13·2
In India	15	17·0	17·9	16·3	13·8
Value of the rupee in grains of gold—					
In London	7·53	9·6	6·5	7·1	8·5
In India	7·53	6·7	6·3	6·9	8·4
Value of the rupee in pence sterling in London	16	28	15·6	17·2	18·2
Value of the rupee in pence measured in gold in London.	16	20	13·7	15·1	18·2
Value of the rupee in grains of silver—					
In London	253	149	197	229	245
In India	257	157	194	222	249
Ratio of gold to silver—					
In New York	34	15·5	31·3	32·7	28·8
In London	34	15·7	30·5	32·2	28·7
In India	34	23·5	30·8	32·0	29·6

During the last 19 months the measures taken by the British Parliament have resulted in restoring the British paper pound sterling to the value of a sovereign, that is, 113 grains of fine gold, as compared with the 99 grains it was worth in January 1924. The rupee has risen in value in sterling from 17·2*d.* to 18·2*d.*; but as in January 1924 the pound sterling was worth only 88 per cent. of the sovereign, the rise in the value of the rupee, when measured in gold, has really been from 15·1*d.* to 18·2*d.*—in other words, the rupee, which before the war was worth 7·53 grains of gold, and in January 1924 was worth only about 7 grains, now exchanges for 8·5 grains in London and for 8·4 grains in Bombay; and the sovereign, which before

the war exchanged for Rs. 15, and which in January 1924 was worth about Rs. 16, now commands in Bombay only Rs. 13·8. This rise of about 20 per cent. in the gold value of the rupee during the last 19 months has greatly altered the Indian currency position.

The Royal Commission, which has recently been appointed to report on the Indian exchange and currency system and practice, will no doubt consider whether an attempt should be made to fix the rate of exchange of the rupee in terms of gold, as it had been fixed for a number of years before the war. If that were done, the rupee prices of commodities would tend to vary with gold prices, and as one of the chief objects to be aimed at is the stability of commodity prices, it will be for consideration whether in the future gold is likely to form the best basis of currency from the point of view of stability. According to Sauerbeck's series, in the United Kingdom the wholesale gold prices of commodities in general use rose between 1896 and 1913 in the proportion of 61 to 85, that is, at the rate of 1·4 points per annum. There can be little doubt that one of the chief reasons for this rise of gold prices (in other words, fall in the commodity value of gold) was the great addition to the world's stock of gold due to the increase in production which took place after 1890. If there had been no great war, and if the new production of gold had continued at the pre-war rate, it seems probable that the rise of gold prices would have continued, and that the average wholesale gold price of commodities in this country might now have been about 17 per cent. above what it was in 1913; that is to say, taking the prices of 1913 as 100, the index-number for this country might now have been about 117. As a matter of fact, according to the statistics published by the League of Nations, in those countries which have kept or brought their paper currencies up to the value of gold, the index-numbers of wholesale commodity prices were in June last: United Kingdom 158, United States 157, Canada 159, Australia (May) 167, New Zealand 174, South Africa (April) 130, Holland 153, Sweden 161, Switzerland 161, Germany 134. These figures are not strictly comparable, but broadly speaking they indicate that the rise in wholesale gold prices in these countries (except Germany) has been about 60 per cent.—in other words, it takes about 16 ozs. of fine gold to purchase wholesale the same quantity of general commodities which would have been purchased for 10 ozs in 1913. This great rise in the gold price of commodities (or fall in the commodity value of gold) can only to a comparatively small extent be due to the increase in the world's stock of gold owing to an excess of new production of gold over the amount of gold lost during those 12 years. It must be mainly due to the great destruction of commodities during the war, to lower production of commodities, and to the fact that the world's effective demand for gold has decreased at a more rapid rate than its effective demand for commodities, owing to the impoverishment of many countries, and to the general withdrawal of gold from circulation.

As regards recent changes, during the 12 months ending with June 1925 the index-numbers (reduced to terms of gold) have altered as follows:—United States from 145 in June 1924 to 157 in June 1925, United Kingdom from 144 to 158, Canada from 150 to 159, Holland from 141 to 153, Sweden from 156 to 161, Switzerland from 159 to 161, Germany from 116 to 134, France from 127 to 134, Italy from 127 to 135, Belgium from 134 to 135, Japan from 164 to 168, India (Calcutta) from 166 to 184. During these 12 months, therefore, there has been almost all over the world a very considerable rise (averaging about 6 per cent.) in the wholesale prices of commodities, when measured in gold—that is, a fall in the commodity value of gold. This seems to indicate that the world's available supply of gold is increasing at a faster rate than the world's effective demand for it, which might be due to the increase of the world's stock of gold owing to new production, to the setting free of reserves of gold, or to the desire of the world's population to purchase commodities rather than gold.

Altogether, to judge from past experience, gold as a basis of currency does not provide an absolutely stable basis for commodity prices. But what is the alternative before India? The United Kingdom and the United States, which are the principal creditor countries, have now currencies directly based on gold, and are not likely to accept any other basis than gold for the payment of the debts due to them, although that means that payment can at present be made in a much smaller quantity of commodities than would have been required before the war to repay debts of similar amounts fixed either in sterling or in dollars. Many other countries have either got back to the gold standard, or are trying to do so, and it seems probable that soon practically all international trade will be conducted on a definite gold basis. Before

the war, when the rupee was merely a token coin, equal in value to one-fifteenth of a sovereign, India's international trade, and even her internal trade, were really based on gold. Now the rupee has no longer a fixed value in relation to gold, nor do fluctuations in the value of silver have any appreciable effect on the gold value or the commodity value of the rupee coin. That depends on the relation between the supply and demand for rupee currency and the supply and demand for other commodities (including gold and silver). The supply of rupee currency is regulated by the Government of India without any automatic control, such as is exercised in the case of sterling or of dollars by the right a creditor has of demanding the equivalent in gold coins which have an intrinsic value of their own, according to the number of grains of gold they contain; whereas the rupee coin, which at present buys about 249 grains of silver in India, contains only 165 grains of pure silver. The Government of India, I venture to think, made a great mistake before the war in rapidly increasing the quantity of rupees and notes, which during the war entailed a period of anxiety and great expense in the endeavour to maintain the convertibility of the currency notes. The Secretary of State certainly made a disastrous mistake in 1920 when he announced that he would aim at giving the rupee a fixed value in exchange of one rupee for 11·3 grains of fine gold—that is, one-tenth of the gold in a sovereign. This experience, together with the experience of many other countries during and since the war, shows the danger of entrusting the management of a currency to any body of men, however capable, honest and impartial, without some automatic check, which would prevent even a partisan or doctrinaire Government from manipulating the currency in the interest of particular classes, and thus possibly inflicting great injury, especially on the poorest of the population. The people of India will be safer with a currency based on gold, although the commodity value of gold is liable to fluctuate, than with one dependent on the varying opinions of any body of men.

Writing in the *Asiatic Review* in April 1924, when the rupee was worth about 7 grains of gold, in place of its pre-war value of 7·53 grains, I urged that the Government should formally cancel the futile announcement of 1920, make the sovereign legal tender in India at the pre-war rate of Rs. 15 to the sovereign, and aim at keeping the gold value of the rupee at that rate. Since then, however, the gold value of the rupee has risen to 8·4 grains of gold, which gives it a value in exchange of over 18*d.* gold, and the sovereign in Bombay now commands only Rs. 13·8. But it must be borne in mind that so lately as 31st January 1922 the rupee was worth only about 6·5 grains of gold, and that only 19 months ago it was worth only about 7 grains, and the recent rise in its gold value to 8·4 grains may prove to be only temporary, as being due not only to the general fall in the commodity value of gold which has taken place over the world as a whole, but to exceptionally good harvests in India, which led to an increase in the demand for rupee currency. If the world's demand for gold increases, or the world's production of commodities overtakes the world's demand, then the general gold price of commodities will fall, the commodity value of gold will rise, and the gold value of the rupee will tend to fall. If India suffers from poor harvests and her exports decrease in comparison with her imports, there will be less demand for rupees, and the people who hold large hoards of rupees may feel compelled to put them into circulation and thus increase the available supply of rupees, which would tend to reduce the gold value of the rupee.

In the interests of stability, therefore, it is desirable to fix the gold value of the rupee below its present value of 8·4 grains. It seems probable that sovereigns may soon come into general circulation in India, as they showed signs of doing before the war; so that it is of greater practical importance to fix the ratio in so many even rupees to the sovereign than in so many even pence to the rupee. I therefore now venture to suggest that the sovereign should be made legal tender in India at the rate of Rs. 14, instead of the pre-war rate of Rs. 15. This would make it equal in value to 8·07 grains of fine gold, and the par rate of exchange would be 17·14*d.* If this were done exchange could not rise appreciably above that rate, as it would then become profitable to import sovereigns into India and use them as legal tender for Rs. 14. The real danger would be, as it was before the war, that the gold value of the rupee might fall below the par rate; and to minimise that danger the Government of India should refrain from coining any more rupees, and should make a large reduction in the quantity of currency notes outstanding, leaving the population to make up the currency required for circulation by utilising the Rs. 877 million now in the Currency Reserve, and a portion of the great quantities of gold and rupees

which are at present hoarded. In that case it would probably never be necessary to draw on the £40,000,000 which the Government still holds in the Gold Standard Reserve.

APPENDIX 90.

Note on Indian Currency and Exchange Problems submitted by Sir M. de P. Webb, C.I.E., C.B.E., of Karachi.

I understand that the object of the present Indian Currency Commission is "to examine and report on the Indian Exchange and Currency System and practice, to consider whether any modifications are desirable in the interest of India, and to make recommendations" (vide the "*Statesman*," Calcutta, of the 24th November 1925).

I have long been a keen student of the Indian Currency and Exchange Systems, and have had over 30 years' practical experience of them in India as a merchant, &c., who successfully survived the crises of 1892–95, 1917–19, and 1920–23. With these experiences behind me, I venture to submit the following points for the consideration of the Commission.

PART I.—DEFINITIONS.

(A) It is essential at the start of any currency discussion that the main functions of the currency in modern civilised countries should be defined. In India, as in all modern, civilised countries, currency, i.e. money, is the Chief Purchasing Tool.

Further, in India, more than in the leading Western countries, money is also used as a Reserve of Purchasing Power to be drawn on in times of need. Money serves in other ways, but the two functions here given are, I submit, the most important.

(B) If, for any reason, the Purchasing Tools of India's 320,000,000 of people become blunted, if the Tools lose in purchasing power, grave injustices, involving possibly very serious hardships, are brought about, especially on small wage earners and on people generally of small means. And such people form a very large proportion of the whole population.

(I am convinced that the rapid popularity obtained by Mr. Gandhi among the masses, and the corresponding wave of ill-will towards Government that appeared in both town and country towards the end of, and immediately after the termination of, the Great War, was largely facilitated by the terrible hardships caused by the Indian currency losing half, or more, of its purchasing power during the War. This loss has not yet been wholly made good, and the general level of prices in India is still some 70 per cent. above pre-war levels.)

Government hear little or nothing of these hardships from those immediately concerned, because the great mass of the people in India are, speaking generally, wholly uninformed as to consequences of short or excessive issues of currency by Government.

(C) Further, not only has the efficiency of India's Chief Purchasing Tool diminished in consequence of the Great War, but all Reserves of Purchasing Power have similarly lost in value. All holders of these reserves have therefore also suffered, though not so severely as the poorest classes of wage earners. These injustices to wage and salary earners have by now been very largely removed by increases of pay.

(D) On the other hand, sudden and considerable *increases* in the Purchasing Power of the currency also involve injustice and, if unexpected, heavy losses on principals engaged in the work of production. For falling prices mean unexpected losses on all stocks of raw products and manufactured goods, and on all goods in course of production. Those who produce are in many cases far better informed and organised than the poorest classes, and so can exert far greater political influence than the vast unorganised mass of small wage earners. If, then, the general fall of prices (i.e. access of Purchasing Power of the country's Monetary Tools) be very great, Government are sure to hear a lot of the matter; and demands will be made that Government turn the situation in favour of the producing, stock-holding, and speculative classes by directly or indirectly putting more money into circulation in order to lessen the value (i.e. purchasing power) of the Money Tools then current.

PART II.—GOVERNMENT'S CURRENCY FUNCTIONS.

(E) Since the closing of the Indian Mints to the free coinage of silver in 1893, and until Government declared sovereigns legal tender in India, the work of issuing new currency in India has been the monopoly of the Government of India. As the ratio

of the rupee to the sovereign is at present fixed at a point which, for the time being, prevents sovereigns being legally tendered in India for purchasing purposes, Government are, in effect, still the only source from which supplies of new currency can be obtained by the public. And as the value, or purchasing power, of India's Money Tools depends upon the volume of those Tools in circulation as compared with the volume of work they are called upon to perform, it is within the power of Government to-day to *augment* or *diminish* the purchasing power of India's Money Tools by respectively *withholding* or *multiplying* new issues of currency.

(F) Rightly used, the expression "stabilisation of the rupee" should mean "stabilisation, as far as practicable, of the *general purchasing power of the rupee*" and not, as often understood, of its purchasing power in relation to the sovereign or pound sterling *only*. And, remembering the grave injustices and hardships inflicted upon great sections of the population by considerable fluctuations in the purchasing power of the country's Money Tools, it is clearly one of the first duties of Government to guard against all such fluctuations as far as humanly possible.

This duty is by no means easy of accomplishment, for fluctuations in internal price levels arising from natural causes (such as exceptionally good rains, or blights or pests), affect sales overseas and later purchases overseas, thereby changing the balance of trade, and so altering the purchasing power of the rupee and of the pound sterling in relation with each other. On the other hand, Government, when dealing with Council Drafts and "Reverse Councils," can raise or lower the foreign exchanges, and so, for the time being, lower or raise internal price levels. To add to the difficulties of the problem, interested organisations at the chief ports often demand currency facilities or exchange policies quite regardless of the consequences on internal price levels, were these organisations' demands acted upon.

(G) I may add in this connection that if Government find it impossible to conduct a currency policy that will not affect the purchasing power of India's Money Tools one way or the other, then I think it would be best in the general interest of India that the general level of internal prices should very slowly and gradually *rise*, rather than steadily and continuously *fall*. This would mean that in periods of prosperity arising from a succession of good seasons in India and good demands overseas for India's surplus products, sterling exchange also would gradually—not rapidly—rise. If internal prices in India were prevented from rising at all (by withholding additional supplies of new currency), then sterling exchange would rise by leaps and bounds. This is objectionable for many reasons. But I see no reason why sterling exchange should not, in such conditions as assumed above, be allowed to move upwards *gradually* to a new level, for the only alternative would be a great rise of prices within India, i.e. a great loss of purchasing power of India's existing Money Tools. And this spells hardship and misery for millions, and the creation of a seedbed of hostility to all ruling authority.

I believe it to be quite possible for Government, notwithstanding erratic political pressure, and conflicting standards of currency management, to steer a middle course along the line indicated above, as indeed, Government appear to have done during the last two years, avoiding both violent fluctuations in sterling exchange, and marked changes in the purchasing efficacy of the rupee within India.

PART III.—REPLIES TO THE COMMISSION'S QUESTIONS OF 24TH NOVEMBER 1925.

(H) With the above definitions and guiding principles in mind, I venture to answer below the nine questions issued in Delhi on the 24th November 1925 to the Press by the Government of India on behalf of the Commission.

1.—(*a*) Is the time ripe for a solution of the problems of Indian currency and exchange by measures for the stabilisation of the rupee, or otherwise? *Answer.*—No, certainly not, if by "stabilisation of the rupee" is meant "attempting to fix permanently the ratio between the rupee and the sovereign or pound sterling."

My reasons for this conclusion are—

(1) Uncertainty as to the future of gold.

(2) Uncertainty as to the future of the European exchanges, most countries in continental Europe being in financial difficulties.

(3) Uncertainty as to Great Britain's ability to maintain parity between the sovereign and the pound sterling so long as her export trade is handicapped by local and national indebtedness of a magnitude unprecedented in her history.

(4) Uncertainty as to the consequences of a succession of bad seasons in India with Indian prices at their present high level relatively to pre-war price levels in India.

It would certainly increase confidence and enterprise on the part of many engaged in foreign trade—but a small number, however, relatively to the whole population—if Government could see their way to announce that they are prepared *at all times* (*a*) to sell pounds sterling at, say, Rs. 13. 3, if the public require remittances to England, and (*b*) to issue additional rupee currency at the current market rate of the day to an extent that would guard against rapid or great rises in sterling exchange, having regard to the necessity of guarding also against rapid or great rises of rupee prices.

More than this, I could not recommend at present.

(*b*) What is the comparative importance of stability in internal prices and in foreign exchanges? *Answer.*—In the interest of India as a whole, I consider that Government should regard stability in internal prices as of greater importance than stability in the foreign exchanges.

This, because of the very great magnitude of India's population, and the small means and consequent helplessness of the vast majority of that population. In such circumstances Government ought to take every possible step to guard against any failure of the people's Money Tools. High prices for non-food products grown in India quickly affect the prices of food and clothing and other simple necessaries, which ought not to be allowed to soar out of the people's reach. So far as rupee prices in India may be affected by issues of new currency, it should be one of the first duties of Government to maintain the efficiency and stability of the country's Chief Purchasing Tools.

Instability in sterling exchange is no doubt vexatious and troublesome to Government, and to the relative few engaged in foreign trade; but, provided it be not allowed to run to extremes, is not fatal, or even a very serious matter. The Exchange Banks will always, at a price, cover exchange risks. And the price is generally reasonable and very small.

(*c*) What are the effects of a rising and a falling rupee, and of a stability of a high or a low rupee on trade and industry, including agriculture, and on national finance? *Answer.*—An exhaustive reply to this question would mean a lengthy treatise!

Briefly, a rupee rising in general purchasing power (as evidenced by a general *fall* of prices) inflicts unexpected losses on all producers and stockholders; checks enterprises; numbs industry; and causes a general slowing down of economic effort. So far as sterling exchange is concerned, it temporarily checks exports and stimulates imports.

On the other hand, a rupee falling in general purchasing power (as evidenced by a general *rise* of prices) transfers unmerited profits to all producers, stockholders, merchants, middlemen, and speculators, and so stimulates all forms of productive and speculative activity at the expense of the great mass of fixed wage earners, pensioners, rentiers, and others who suffer unmerited and possibly cruel hardships. The fall in sterling exchange temporarily stimulates exports and checks imports.

A *stable* rupee, whether of high or low purchasing power, simply permits (*a*) *world* prices of products of which India enjoys a monopoly to adjust themselves to Indian costs of production, and (*b*) the *Indian* prices of products produced in other countries as well as India to adjust themselves to *world* levels. After the adjustment has taken place, there is no advantage to India either way—whether the rupee be of high or low value.

So far as National finance is concerned, as India has to purchase over £30,000,000 sterling annually to meet her sterling liabilities, it would appear at first thought that the greater the purchasing power of the rupee in relation to sterling (in other words, the higher the rate of sterling exchange), the better it should be for India. But this conclusion is subject to many qualifications and limitations. If, for example, this increased purchasing power be brought about by *world* conditions, including, possibly, a change in the value of gold, that have not caused a *corresponding* general fall of prices in India, then India gains for the time being, till further world adjustments in prices have taken place. The number of variations and combinations in local and world conditions is so great, that it is impossible in this place to discuss all possibilities that might result from such variations and combinations.

2. In relation to what standard, and at what rate should the rupee be stabilised, if at all? When should any decision as to stabilisation take effect? *Answer.*—The rupee—silver and paper—is such an efficient Monetary Tool so far as the great majority of India's vast population is concerned, that I cannot recommend its relegation to a secondary place in India's currency system in the present state of

the world's monetary affairs. If, however, it be thought necessary "in the interest of India" to attempt to stabilise the rupee in relation to some other currency, then the sovereign or the pound sterling would certainly be the best directions in which to turn.

Of these two, the sovereign would probably be the better. But if this were done, and Great Britain should find it impossible for any reason hereafter to maintain the pound sterling at par with the sovereign (sovereigns have not been in circulation in the United Kingdom for many years past), great confusion would arise, for we should probably see two exchange quotations for the rupee current every day—one for the pound (sterling), and another for the pound (gold). I would therefore urge extreme caution, and a deferring of the decision to attempt stabilisation with Great Britain's currency till we have had more experience of the European and American exchanges under the conditions amidst which we are now working.

3. If the rate selected differs materially from the present rate, how should transition be achieved? *Answer.*—If the rate selected were materially *lower* than that current at the time of selection, transition could only be effected by putting more currency into circulation, thus *raising* prices, checking exports, reducing overseas demands for rupees, and so lowering sterling exchange. I most strongly deprecate any such depreciation of India's Money Tools.

If the rate selected were materially *higher* than that current at the time of selection, then transition could be *expedited* by withholding issues of new currency, thus *lowering* prices, stimulating exports and checking imports, increasing overseas demands for Indian currency and the sterling cost of rupees. Such action must be even more strongly deprecated than a deliberate depreciation of the currency. See, however, para. (G) above.

4.—(*a*) What measures should be adopted to maintain the rupee at the rate selected? *Answer.*—Much the same as before the War, except that opportunities for remitting from and to India at definitely fixed rates should be increased; and, in view of present price levels, the Gold Standard Reserve enlarged.

(*b*) Should the Gold Exchange Standard system in force before the War be continued, and with what modifications, if any? *Answer.*—Yes, but with the following developments :—

(1) The Gold Standard Reserve to be increased to at least £50,000,000.

(2) "Reverse Councils" to be always "on tap" at the larger Branches of the Imperial Bank of India, at a fixed rate, and in sums of Rs. 10,000 and over.

(3) The Secretary of State's *Budget* requirements to be obtained through the Imperial Bank of India who would provide him with the necessary sterling, and recoup themselves by daily sales in London of Transfers on their leading Indian Branches, and daily purchases in India of sterling transfers on London, at rates fluctuating according to market requirements between maxima and minima fixed by Government. The Government of India to place the Imperial Bank of India in funds in India as required in connection with the Bank's sales of Transfers on its Indian offices.

(4) Demands by the public for remittances to India over and above those provided by the Imperial Bank of India in connection with the Secretary of State's Budget requirements, to be met from sales by auction in London of Currency Council Drafts on the Indian Treasuries at the chief Indian Ports. Currency Councils not to be available till the Imperial Bank of India had sold in London and bought in India sufficient Budget Transfers to meet the Secretary of State's Budget requirements for the year.

(5) Proceeds of *Currency* Council Drafts would ordinarily be devoted to the purchase in London and shipment to India of specie or bullion for enlarging the Indian currency, but might be retained temporarily in London in a Special Division of the Gold Standard Reserve, if Government, for any reason, did not consider it necessary to add immediately to the volume of the Indian currency in the ordinary way.

(*c*) What should be the size, composition, location, and employment of a Gold Standard Reserve? *Answer.*—At least £50,000,000, half in gold and half in sterling securities. The gold to be held in the Indian Treasuries and the securities by the Secretary of State in London. The Reserve to be employed to maintain sterling exchange at the minimum point agreed upon.

5.—(*a*) Who should be charged with the control of the note issue, and on what principles should control of management be transferred to the Imperial Bank of

India? What should be the general terms of transfer? *Answer.*—The Government of India. I am strongly opposed to any transfer of authority in the matters of manufacturing and issuing new currency from Government to any Bank. I consider the Bank of England system wholly unsuitable to India. The maintenance of the purchasing power of a country's Money Tools is one of the first duties of every Government, and the Government of India, perhaps more than most Governments, must carry out this duty with the utmost punctiliousness. The Government of India's Money Tools have always been, and must always continue to be, above reproach. Indian currency notes are growing in popularity daily—a development which Government should do everything to encourage.

So far as the month-to-month, day-to-day management of the currency issued by Government is concerned (including the provision of temporary supplies of Money Tools for the moving of the crops, &c.), the present arrangements with the Imperial Bank of India seem to me adequate.

(*b*) What provisions should be made as to the backing of the note issue? *Answer.*—The present arrangements appear to me adequate with the exception of Government's own Securities which are not an altogether satisfactory backing for Government notes.

In this connection I may mention that I see no good reason why Government should not issue special Service Notes as currency (e.g. notes backed by remunerative public works), *provided such Money Tools could be put into circulation without materially lowering the efficiency of the Tools already in use.* An appropriate time for such an issue would be when a tendency towards a general fall of prices was becoming manifest. From the revenues derived from the public work constructed by the aid of these special Money Tools, a Sinking Fund could be provided for the acquisition and withdrawal from circulation of the whole of the special issue in, say, 30 years.

The economies gained by the employment of capital on which no interest would have to be paid are obvious; and might enable much needed public works to be initiated the construction of which might otherwise be delayed.

(*c*) What should be the facilities for the encashment of notes?

(*d*) What should be the policy as to the issue of notes of small value? *Answers.*—The more the better. In the meantime, present arrangements seem satisfactory. I believe one-rupee notes to be costly to maintain and insanitary in use. Therefore I am against the issue of any note under five rupees.

6.—(*a*) What should be the policy as to the minting of gold in India and the use of gold as currency? *Answer.*—Having regard to the facts that the great dangers to India of the opening years of the present century no longer exist, that much uncertainty exists as to the future value of gold (most countries have now abandoned its use as currency, and employ it only as Reserve Money available for the adjustment of international balances), and that the chief countries of Europe—including Great Britain—are still only in process of a gradual and difficult recovery from the effects of the Great War, their financial and economic conditions still being very complicated, I no longer feel that it is urgently necessary "in the interest of India" that India should now have a gold currency. Gold Money Tools are an expensive luxury in these days of heavy national indebtedness, and I advise a waiting policy. India is doing very well indeed with her present Money Tools.

At the same time, I should be inclined to aim at the eventual establishment of a gold monetary system in India, the currency to include (*a*) gold-backed notes, (*b*) gold coins of large value only, say, Rs. 20 to Rs. 30 each, and (*c*) a large volume of subsidiary silver coinage legal tender for sums up to Rs. 100.

(*b*) Should the obligation be undertaken to give gold for rupees? *Answer.*—No, not until the Indian currency contained a large proportion of gold coins. But the Government must be prepared to sell "Reverse Councils" as suggested in my reply to question 4 (*b*).

7.—(*a*) By what method should the remittance operations of the Government of India be conducted?

(*b*) Should they be managed by the Imperial Bank? *Answer.*—See my replies to question 4 (*b*).

8.—(*a*) Are any, and if so what, measures desirable to secure greater elasticity in meeting seasonal demands for currency?

(*b*) Should any, and if so what, conditions be prescribed with regard to the issue of currency against hundis? *Answer.*—So far as I know, the present arrangements are working quite satisfactorily.

9. Should any change be made in existing methods for the purchase of silver? *Answer*.—Yes; the Government of India should call for tenders for such silver as it may require for currency purposes in Bombay as well as in London, and, in special cases, in any other part of the world that they may deem suitable.

I would here repeat that having regard to the uncertainty that dims the future of gold, of sterling exchange, and of the European and American exchanges generally, and also to (*b*) the general prosperity and very strong economic position of India as a whole, I see no reason why India should hasten, at this particular moment, to attempt to discard (and thereby discredit) her very efficient Silver Money Tools and substitute Gold Money Tools in their place, the more especially as the introduction of these new and expensive Gold Tools would necessitate the fixing of a ratio of exchange between the silver and the gold tools (or between the rupee and sterling) that might be very difficult to maintain *except by disregarding the efficiency of the Money Tools already everywhere in use by the great majority of the masses of India.* Therefore, I would urge the utmost caution. "Wait and see" should be our policy.

India as a whole appears to me to have arrived at a higher level of material prosperity, and with far larger accumulations of wealth than she has ever before enjoyed at any previous period of her history. There is no necessity to invite currency complications at this particular time.

APPENDIX 91.

Statement of evidence submitted by the East India Section of the London Chamber of Commerce.

(A) *A proposal to place Indian currency on a gold basis.*

1. The Executive Committee of the Section is impressed with the fact that there has not been time to readjust economic relations of the world, which were so violently disturbed by the Great War, and this may be seen by wide fluctuations in exchange values.

2. The effect of placing Indian currency on a gold basis, with gold coins as an internal medium of exchange, would involve a demand for gold which, in the opinion of the Executive Committee, would greatly exceed the estimate of £103,000,000 mentioned; an Indian gold currency would be used far beyond the borders of India, and gold coin would be likely to be hoarded in very much larger quantities than is gold bullion at present.

3. These considerations would, in normal times, render the establishment of a gold standard in India a daring experiment of the first magnitude. Under the present abnormal conditions, such an experiment would, in the opinion of the Executive Committee, be fraught with danger to India and to this country.

4. For these reasons, the Executive Committee is of opinion that the present is not an opportune time in which to introduce a gold currency in India.

(B) *A proposal to stabilise the rupee.*

5. If it were possible to stabilise the rupee as soon as it reached an exchange level which would in future be likely to represent normal, it would, in the opinion of the Executive Committee, be desirable to do so (the attempt to stabilise the rupee at 2*s.* must now be definitely regarded as having been a complete failure). At the same time the Executive Committee is not satisfied that it would be possible in all the circumstances surrounding the case to maintain the rate at 1*s.* 6*d.* In this connection it has to be borne in mind that for five years in succession there have been good monsoons. Should the favourable cycle be broken it may be found that the normal exchange value of the rupee will be nearer 1*s.* 4*d.* than 1*s.* 6*d.* In view, therefore, of the uncertainty as to whether the present rate can be regarded as normal, the Executive Committee recommends that stabilisation should not be undertaken until India has passed through a year of bad harvests.

6. Whilst it is true that a 1*s.* 6*d.* rate should, *primâ facie*, assist imports from this country into India, it must be remembered that that rate operates against the export of Indian produce, and so reduces the purchasing power of India.

APPENDIX 92.

Statement of evidence on the Indian Currency Problem, submitted by Professor Gustav Cassel.

I.—The General Background.

When the Commission asked me for my views on the question of the Indian Currency, the Commission presumably desired my opinion on the effects on the world's economy in general of a reform of the Indian currency and particularly of an eventual introduction of a gold standard with a gold circulation in India. This question is essentially that of how an increased monetary demand for gold on the part of India would affect the supply of gold at the disposal of the rest of the world and thereby the general level of prices in gold-standard countries.

In order to elucidate this question it is clearly necessary, first of all, to show how the general level of prices is affected by variations in the gold supply, and what the gold supply ought to be in order that the general level of gold prices should remain constant. In investigating this question we have necessarily to take account of the world's total supply of gold. In other words, we cannot be content with considering merely the stock of gold of a single country, nor, as is often assumed, the world's *monetary* stock of gold. Neither of these quantities has an independent existence. In a gold standard, gold is free to move between countries as well as between the monetary and the industrial stock of gold. This mobility of gold is a fundamental characteristic of the gold standard. We have, therefore, necessarily to find out how the general level of prices in a gold standard depends on the world's total supply of gold. An investigation into this question is contained in my "Theory of Social Economy," London, 1923, and the results are summed up in my "Fundamental Thoughts in Economics," London, 1925. I shall take the liberty in the following of quoting some passages from this summary.

The economic progress of the world must, of course, make an increased supply of gold necessary if the value of gold is to be invariable, i.e., if the general level of prices of commodities is to be constant. We cannot, therefore, speak of a superfluity or a scarcity of gold in any period without referring these conceptions to a supply which can be regarded as normal for that period. But what supply is normal? That is the equivalent of asking: What rate of increase in the world's gold supply has been necessary during a certain period to enable the general level of prices to remain constant during that period? Of course, this question can only be answered by experience, i.e., by collecting statistical material for a lengthy period. To this end, the period from 1850 to 1910 is particularly convenient, because the general level of gold prices in 1910 was practically the same as in 1850. In this period, however, the world's total stock of gold was multiplied by the figure 5·2, which corresponds to an annual increase of 2·8 per cent. If, therefore, the world's stock of gold had increased uniformly during the whole period by 2·8 per cent. every year, the stock in 1910 would have been precisely what it actually was, and there would have been no reason why the supply of gold should have caused any variation in the general level of prices in the meantime. Such a uniform growth of the world's stock of gold from 1850 to 1910, therefore, may be taken to represent the world's normal gold supply for every year of that period. The actual gold stock of the world was greater for a part of the period and smaller for the remainder, and we are in a position to give in precise figures a measure of the superfluity or scarcity of gold at any time of the period under consideration. For this purpose I have introduced the conception of a *relative gold supply*, which is for any given year the actual gold supply divided by the normal gold supply.

This relative gold supply is the only factor which can reasonably be assumed to have any influence on the general level of prices. The object of our investigation must, therefore, be to find out how far the actual variations of the general level of gold prices during the period from 1850 to 1910 are explained by corresponding variations in the relative gold supply. Thus we have to compare two curves, of which one represents the relative gold supply and the other the general level of gold prices. It is then immediately shown that the latter curve contains sharp short-time fluctuations which have no counterpart at all in the very even curve repreenting the relative gold supply. These price fluctuations are easily recognised as connected with periods of prosperity and depression. We can immediately draw the conclusion that trade cycles have nothing to do with the supply of gold. Eliminating the corresponding short-time price fluctuations

from the curve representing the general level of prices, we find a curve which corresponds to our curve of relative gold supply in a most striking manner. The conclusion is that the long-time variations of the general level of prices essentially depend upon variations in the relative gold supply.

According to these definitions a superfluity of gold was ruling in the 'fifties and the 'sixties of the nineteenth century, and the general level of prices rose correspondingly. This superfluity was diminished during the following decades, and by about 1887 the supply of gold as well as the general level of prices had again become normal. In the middle of the 'nineties a scarcity of gold prevailed and the general level of prices sank beneath the normal level. In 1910 the total supply of gold and the general level of prices were again normal. The rise of the general prices in the 'sixties and the fall of the general prices in the 'nineties were both greater than what would exactly have corresponded to the superfluity or scarcity of gold, and it may perhaps be inferred therefore that the movements of the general level of prices have a certain tendency to enlarge the influences of a superfluity or a scarcity of the supply of gold. If the world's total stock of gold is to increase by 2·8 per cent. per annum, the annual production must not only correspond to that factor, but must also make up for the year's definite loss of gold, which may be taken on an average to represent 0·2 per cent. of the total stock. Thus the annual production must amount to 3 per cent. of the total stock at the beginning of every year. Should the production exceed this amount of 3 per cent., the general level of prices must rise by the difference; again, should the production fall short of the said amount of 3 per cent., the general level of prices is bound to fall by the difference, e.g., if the world's production of gold in one year should only amount to 2 per cent. of the total stock at the beginning of that year, we have to expect a fall in the general level of prices of 1 per cent. Naturally, if the same shortness in the production of gold should prevail for a series of years, the fall in the general level of prices must continue at a rate of 1 per cent. per annum.

As the annual supply required for stability is a certain percentage of the stock accumulated, it must obviously grow at the same rate as the stock itself. This is a very important conclusion. Indeed, the consequence is that, if the production of gold, however abundant it may be at the present moment, should remain constant, it must become insufficient within a certain number of years. For the production increases the stock and when the stock grows, the annual increase of the stock which corresponds to the economic progress of the world must grow likewise, and sooner or later outgrow the constant production. If the annual production of gold falls short of the percentage of the accumulated stock required to meet economic progress, the general level of prices in a gold standard is bound to fall. If, therefore, the world should be confronted with the impossibility of increasing the annual gold production, and consequently with the necessity of being satisfied with a constant gold production—not to speak of the case of an actually diminishing production—the world would have to face a continual and incessant fall of the general level of prices with a consequent economic depression. Thus the gold standard must be said to be a satisfactory standard only on the condition that the world is able to increase indefinitely its annual production of gold at the same rate as characterises the worlds general economic progress.

My calculations show for the end of 1910 an accumulated stock of gold of £2,600 millions.* This stock had increased by the end of 1923 to £3,623 millions. The actual gold production amounted in 1924 to £79·4 millions, representing only 2·19 per cent. of the accumulated gold stock at the beginning of the year. Assuming that a yearly production of 3 per cent. of the accumulated stock still represents the normal requirement, we here find a deficiency of 0·81 per cent. In absolute terms the gold production ought to have been £108·7 millions. As it was only 79·4 millions there was a deficiency of £29·3 millions. In 1925, a production of 3 per cent. of the stock at the beginning of the year would have represented £110·9 millions. In reality it was only about £81 millions, and thus there was a deficiency of £29·9 millions, representing in percentage of the accumulated stock 0·81. It is worth noting that the absolute deficiency is increased and the relative deficiency is unaltered—in spite of a considerable increase in the production.

It is clearly seen from these figures that the present height of gold production is entirely insufficient for keeping up what we were accustomed before the War to regard as a normal economic progress requiring an annual gold production of

* The original calculations are in gold marks, and I have converted them here to pounds at the rate of 20 marks for £1.

3 per cent. of the accumulated stock. If this scarcity of the gold supply is not felt at present as a serious evil, this is only due to the fact that during the period from the beginning of the War to the end of 1924 America has accumulated quite an abnormal monetary reserve of gold. During the time of inflation gold was expelled from a number of European countries, and most of this gold was accumulated in the United States. The American authorities have taken the very sound view that this gold stock, in so far as it exceeds the normal requirements of the country, is to be regarded as held in trust for the rest of the world and particularly for European countries which may want to get the gold back again, as they gradually return to the gold standard. The American gold reserve has therefore not been used as a foundation for bank credit to such an extent as would correspond to usual traditions, the Federal Reserve system having seen its ratio of total reserves to deposit and note liabilities run up for some time to 80 per cent. and more.

People in Europe, however, have often taken quite an exaggerated view of the American superfluity of gold. It has been said that this superfluity would force America to a great inflation of her currency with the consequence of rising prices, and it has also been believed that Europe would run the great risk of being overflowed with American gold. On several occasions I have uttered warnings against such exaggerations and tried to make it clear, not only that there was no reason for assuming the growth of the American gold stock to be unlimited, but also that the part of this gold that could really be regarded as superfluous was no greater than would admit of its probably being absorbed in a comparatively short time. The actual course of events has confirmed this view. Towards the end of 1924 the gold stream took a new direction, and 1925 showed a net export of gold from the United States of 134·4 million dollars. True, this is not very much in comparison with the great accumulation of gold in the United States. But still it has proved enough to cause people in Europe to take a more reasonable view of the limits of the excess of gold in America and also to bring about a slight alteration in the American conception of the situation. In fact, there are several signs that go to show that people in the United States are no longer so eager to get rid of the superfluous gold, but are rather inclined to keep themselves ready to protect their gold reserve if it should be exposed to an increasing demand from abroad. This change of mind is natural enough. The merchandise trade balance of the United States is no longer so favourable as it used to be. From the figure of 981 million dollars for 1924, the excess of exports was reduced to 684·5 million dollars in 1925. The latter figure being much less than the foreign loans granted by the United States during the year, there is room for foreign demands for gold. Of course, America can easily protect herself against such demands by measures restricting her capital market. But such a policy would mean precisely that America would keep her gold stock for herself, with the result that her extraordinary reserve of gold would no longer be at the disposal for the rest of the world.

It is very instructive in this connection to read the National City Bank of New York's review of the gold situation of the United States (in their Report for February, 1926). The article referred to gives for the 1st July, 1925, the total of gold coin and bullion in the United States Treasury and Federal Reserve Banks at 3,962 million dollars, and the total of notes and deposit liabilities of all banks at 50,969 million dollars. From these figures the ratio of gold reserve to liabilities is calculated to be 7·7 per cent. For the end of 1924 the corresponding ratio of gold reserve to liabilities for Great Britain is calculated to be 6·5 per cent. The difference is small, and the higher gold cover of the United States is, according to the article, very well accounted for by the peculiarities of the American banking system. The important feature in this reasoning is the fact that leading people in America now think the time has come when the gold reserve of the country must be defended as not being superfluous.

Still, according to acknowledged standards, the gold reserve of the Federal Reserve system is doubtless somewhat higher than necessary. On the 30th December, 1925, the reserve ratio was 67·3 per cent., and thus, from the traditional point of view, there could be no reasonable objection to further gold exports. If we assume, however, that by such exports the reserve were to come down to 50 per cent., we may be sure that the Federal Reserve authorities would take strong measures to protect their reserves. Such a reduction in the reserve percentage must therefore be regarded as the maximum. In other words, of the 67·3 per cent., 17·3 per cent. could possibly be regarded as an excessive reserve. In absolute figures, the combined liabilities amounted on the said date to 4,192

million dollars. 17·3 per cent. of this sum is 725 million dollars. This is, therefore, the maximum amount to which we can reasonably estimate the excess stock of gold. According to the views now prevailing in America, the excess stock is doubtless much smaller, if it exists at all.

As now, the deficiency of the world's gold production according to the above calculations, amounts to about £30 millions, or nearly 146 million dollars, our calculated maximum excess stock of gold in the United States does not cover this deficiency for more than five years. Of course, objections may be raised against these figures. They cannot pretend to be exact. But they are built on the best material available and they give without doubt the essence of the whole problem of the world's gold supply as it presents itself for the time being.

Our result clearly shows that we are now rapidly approaching the time when the deficient gold production will make itself felt in an actual scarcity of the total gold supply of the world. Of course, we cannot know anything about the future development of gold production. But assuming the gold production to remain at its present height, the total stock of gold is bound to increase and then the annual production required for keeping up a certain economic progress must increase in the same proportion. With an unrestricted demand for gold, a growing scarcity of the metal with the consequence of incessantly falling prices is therefore inevitable, unless a very important increase in the world's gold production can be expected, or unless the world is going to acquiesce in a slower degree of economic progress than that which characterised the period 1850-1910. These are the fundamental features of the present gold situation.

Under such circumstances it is natural enough that every effort should be made to economise the use of gold. A prolonged period of falling prices without any prospect of a definite end would bring about a continued depression of the world's economic life, and must, therefore, be regarded as one of the most serious economic evils which could befall human society. A systematic economy in the use of gold is, however, practically possible only as far as concerns the monetary use of the metal. Since the very beginning of the after-war reconstruction I have regarded this economy in the monetary use of gold as an essential element in the whole work of reconstruction. This view has been shared by leading authorities. It found official expression first in the resolution of the Genoa Conference, which recommended that a certain economy in the use of gold should be aimed at by the concentration of the reserves of note-issuing banks. The extension of this economy to the use of gold as a circulating medium was at that time not possible to get incorporated in the resolutions. When, however, in April, 1925, Great Britain returned to the gold standard, the idea had ripened that, owing to the scarcity of the world's gold supply, it was necessary to refrain from bringing gold coins into circulation. Mr. Churchill's gold standard retained only the very kernel of the gold standard, viz., the maintaining of the currency within the neighbourhood of a constant parity with gold.

This is the model for the monetary system of the future. The programme should be: no gold in circulation and the greatest possible concentration of gold reserves, not only within every nation, but also internationally. This limitation of the demand for gold is to the common interest of all nations, inasmuch as everyone of them is interested in the highest possible stability of the purchasing power of its money and in preventing any growth of the real burden of its public debt.

What absolute purchasing power our money has is of course of no importance, the only relevant point being that the purchasing power is kept constant. As a matter of fact, the restoration of the gold standard as an international monetary system has been carried through at a price level—measured according to the index number of the Federal Reserve Board—of about 160 (corresponding to about 150 of the Bureau of Labour). Had the American price level fallen essentially below this point, it is extremely doubtful whether other nations would have found it possible to carry through the corresponding deflation and to restore the pre-war parity of their currencies. Now that this has been done in a series of cases, it is essential that the nations concerned should not be forced to a further deflation with all its pernicious consequences.

The question is simply this: will it be possible to keep the general level of prices at about the height denoted by the quoted index figures? The answer is given by the above analysis. We shall have in all probability to face a growing scarcity of gold, a scarcity that can only be overcome by progressive reductions in the world's monetary demand for gold. All nations must co-operate in this policy. If any country chooses unnecessarily to increase its demand for gold,

we may be sure that other countries will answer by increasing their demands, or at least by measures calculated to protect their reserves, locking them up so as practically to withdraw them from the world's common fund of gold. With united efforts it seems fairly certain that we shall be able to prevent any considerable fall in the general level of prices for at least one or two decades.

What will happen thereafter it is of course impossible to tell. If the general progress of the world should require an annual addition to the gold stock far greater than the world's gold production can supply, and if we have exhausted all our gold economising devices, a continued and unlimited fall in the general level of prices will be inevitable. If the world then finds it necessary to avoid this calamity there will be no other alternative than to abolish the gold standard. Most people have hitherto regarded such a step as practically impossible, and certainly it would have been very unwise to try it under the conditions of extreme disorganisation and mistrust which prevailed after the war. But after a prolonged period of international co-operation towards stabilising the purchasing power of the world's currencies, the situation would be essentially altered. The very habit of deliberately regulating the value of gold by a systematic economy in the monetary use of the metal would be the best imaginable preparation for the future regulation of currencies without the use of gold. In stating this I do not overlook the difficulties. But in face of the great danger of a serious and progressive scarcity of gold the world would be forced to find a way out. Of course, the abandonment of the use of gold for monetary purposes would cause an enormous fall in the value of gold. All those interested in the value of gold, be it as producers or as possessors of gold funds, should observe that a policy preventing the value of gold from rising is from their point of view very much to be preferred to a development which would allow the value of gold to rise to such an extent that the world would be forced entirely to abandon gold for monetary purposes.

One might perhaps be inclined to believe that the world's annual monetary requirements of fresh gold might be diminished if the general level of prices were allowed to fall to a certain lower level. But this is not so. The annual need for gold, required for keeping the price-level constant, is independent of the actual level of prices and is exclusively determined by the rate of progress of the world's economic life multiplied by the accumulated stock of gold of the world. The world's annual need for gold would therefore be the same as it is now, even if there had been no rise of prices since 1913.

A rise in the general level of prices has, on the other hand, necessarily a restricting influence on the annual production of gold. If this influence has not hitherto made itself very keenly felt in the most important centre of gold production, South Africa, the explanation is only that the rise in prices of commodities in South Africa has been slower than in Europe and in America. If prices in South Africa were gradually to rise to a level with the world prices, a certain decrease in the South African gold production would necessarily follow and could only be balanced by progress in the gold-mining industry. People who are inclined to reckon upon an increase in the world's gold production from new discoveries of technical improvements should not quite lose sight of the counterbalancing influences of a probable rise in the cost of living at gold-mining centres.

II.—Criticism of the Proposal to Establish a Gold Standard in India.

A gold standard can take many different forms, and a criticism of the idea of introducing a gold standard in India will gain considerably in clearness and definiteness if it is referred to a particular scheme. It is, therefore, a great advantage that a "scheme for a gold standard for India" has been drawn up, and, as it has been communicated to me, I shall refer the following observations to this scheme.

Such a scheme must be judged in the first instance from the point of view of its effect on the scarcity of the world's gold supply, the significance of which has been set forth in the foregoing paragraph. It is necessary, therefore, to ascertain what extra gold requirements will be brought about by the establishment of a gold standard in India in accordance with the present scheme. An extra demand must, of course, arise first of all for currency purposes. This extra demand—the only one of which the scheme takes any notice—is calculated at 103 millions, and the scheme gives certain figures as to the distribution of this demand over the different stages which have been suggested for the gradual introduction of

the scheme. Having no particular knowledge of Indian conditions I take the statistical figures as they are presented. But with regard to the calculations based on these figures, I venture to offer the following remarks.

As the plan is to be carried through in 10 years, it is hardly satisfactory to calculate "the gold ultimately required for the reserve" on the basis of the present note circulation Rs. 189·5 crores. With the efforts now being made to develop not only the banking system of India, but also generally the economic life of the country, it must necessarily be expected that the note circulation will grow at a certain percentage per year. An estimate of this percentage should be an important element in the plan. Considering that the note circulation has grown from 66,12 lakhs in March, 1914, to 1,89,51 lakhs in September, 1925, it seems not unreasonable to assume that persistent and systematic efforts to further the use of bank notes would result in the doubling of the present note circulation within the proposed transition period of 10 years. The 30 per cent. gold reserve required according to the scheme would then, at the end of the period, represent not 56·9 crores, but 113·8 crores. Thus the total sum required for the currency reform would not be 137·2 crores, as given in the scheme, but 194·1 crores, i.e., £145·6 millions instead of £103 millions. But this is not all. If the law requires the Central Bank to keep normally a gold reserve of 30 per cent., the bank will, according to all experience, find it necessary to keep ordinarily a much larger reserve. Assuming that the bank, in order to be on the safe side, keeps a reserve of, say, 40 per cent., the need for gold for the reserve will ultimately amount to 151·6 crores, and the total sum of gold required for the monetary reform will be 231·9 crores, or £173·9 millions, instead of £103 millions. I quite realise that there may be reasons for assuming a slower growth of the note circulation, so I do not wish to press my figures, but put them forward only to draw attention to the considerable increase in the supposed gold demand which must be taken account of as probable.

With respect to the distribution of this demand over the transition period, the calculations are, as far as I can judge, untenable. It is said that in Stage I "comparatively few hoards would be large enough to buy the minimum quantity sold by the currency authorities." But if the bullion merchants step in as intermediaries, it is difficult to see why the size of individual hoards would be of any importance, the merchants always being able to present enough silver to buy the minimum quantity of gold. They would, therefore, not only "lay in stocks in anticipation of demand," but also immediately act as representatives of the hoarders. It seems very possible, therefore, that the first demand from these sources might considerably exceed the calculated sum of Rs. 50 crores. But I leave this point, and accept the given sum of 50 crores as good. Then it seems to me that the authorities must have that sum of gold at disposal in order to meet the first demand on the introduction stage. The idea that the sum required could be diminished by the 30 crores of gold in the note reserve seems to me incomprehensible. If a country wishes to establish a gold standard, it seems a very strange measure indeed to begin the operation by completely exhausting the gold reserve on which its note circulation is founded. Such a procedure would hardly strengthen the confidence in the new monetary standard. It seems certain, therefore, that the Rs. 30 crores gold in the note reserve would have to be left untouched, and that the assumed demand for Rs. 50 crores would have to be satisfied by gold acquired especially for the purpose. Further, according to the scheme, the minimum reserve to be allowed is 20 per cent. of the circulation. With the assumed initial note circulation this minimum would amount to 37·9 crores, which is about eight crores more than the existing reserve. It would then seem to be a necessary preliminary measure, before introducing Stage I, to increase the reserve by at least these eight crores. Thus the minimum sum of fresh gold required at the introduction of the scheme would be 58 crores or £43·5 millions. This is almost three times as much as the sum calculated in the scheme.

Thus we find that the gold requirements arising out of the proposed reform of the Indian currency are much higher, and much more concentrated within the initial period than has been assumed in the scheme. There is, however, room for another objection, which will perhaps turn out to be of still greater importance. The scheme has taken account only of the amount of gold needed for meeting monetary obligations. But in connection with the introduction of the gold standard and the demonetisation of silver we must expect a very considerable demand for gold to arise on the part of the hoarders of silver in forms other

than rupees. The demonetisation of silver will probably cause a sharp fall in the value of silver, and, in consequence, a distrust in silver as a suitable means of hoarding treasure. The effect on the demand for gold may be twofold.

Firstly, the present owners of metallic silver may be eager to exchange that metal for gold and throw large amounts of silver on the market in order to acquire gold. This would, of course, aggravate the fall in the value of silver, but would still represent a very considerable demand for gold. Naturally only one very conversant with Indian conditions can form any opinion of the probable size of this demand and of the way in which it will be distributed over the transition period. But *prima facie*, and to an outsider, it seems not unlikely that this demand may assume the same dimensions as the demand for an exchange of silver rupees calculated in the Scheme to represent Rs. 110 crores, or £82·5 millions.

Secondly, the very distrust in the stability of the value of silver may have this effect, that such future hoards as would under the old conditions have been accumulated in silver will instead be accumulated in gold. The average annual importation of silver into India for use in the arts, as ornaments, and for all purposes other than coinage, for the last five years is given at the figure of 81 million fine ozs., which, at the present price of about 30d. per standard ounce, would represent about £11 millions. If this treasure should in future be accumulated in gold instead of silver, an additional demand for gold of £11 millions per annum would arise. For the transition period alone that would mean £110 milions extra worth of gold. Of course, it is possible that the change in the habits of the hoarders would not be so radical, and that, when the value of silver had been stabilised at a lower level, the hoarders would again direct a considerable demand towards silver. But in the transition period, and particularly in the beginning of it, it seems probable that from this source would arise a very considerable extra demand for gold.

In addition, it seems necessary to take account of the increase in the general Asiatic demand for gold which will be a consequence of the introduction of a gold standard in India, with gold as circulating medium. With the intimate trade relations between India and the interior of Asia, it seems certain that gold coins circulating in India, and being generally used there as means of payment, would find their way in great quantities to other parts of the Asiatic continent, and that finally gold coins would become a general means of payment in Asia. In this case, the introduction of a gold circulation in India will have very far-reaching consequences on the world's demand for gold.

Summing up this discussion, we come to the result that the extra demand for gold caused by the proposed monetary reform could easily attain a figure several times higher than that assumed in the Scheme. It is, of course, impossible to give a reliable figure for this extra demand. For the sake of illustration I take it at £320 millions, corresponding to about four years' world production of gold. But an extra demand for gold of such dimensions could not but cause a most serious disturbance of the world's gold market and upset the whole policy of economising with gold outlined in the first paragraph. The direct fall of the general level of prices which would be caused by such an extra demand for gold would amount to nearly 9 per cent. But the ultimate effect on the price level would probably be far greater. I have aready observed above that the effects of scarcity or abundance of gold tend to be magnified in the movements of the price level. But in the present case the extra demand for gold would have much more far-reaching effects. It has been shown in the first paragraph that the world is already suffering from a considerable deficiency in the annual production of gold and that it will be possible to meet this deficiency only by systematic co-operation between all nations to bring about a strict economy in the use of gold for monetary purposes. It seems quite certain that the introduction a gold standard in India on the lines proposed in the Scheme, with the consequent extra demand for gold, would immediately cause any such co-operation to break down. It must be remembered that the extra demand for gold, amounting, on the above assumption, during the transition period of 10 years, to an annual average of £32 millions, would be added to the ordinary demand of India which, according to the average of the five years preceding the War, may be estimated at about £19 millions, but which since 1922, has reached very much higher figures. Taking the lower pre-war average we come to the result that the total Indian demand would amount to £51 millions, which is equal to nearly ⅔ of the world's total annual production. Doubtless every country would find itself obliged to protect its gold reserves from an Indian demand of such dimensions. The consequence would be that the different gold reserves of the world

would be locked up and debarred from being used as a common fund for the world's gold standard. In particular, it must be expected that the surplus of gold that now exists in the United States and upon which, as I have shown above, the world must reckon for meeting the imminent scarcity of gold, would no longer be available for such purposes. As soon as India had decided to establish a gold standard, people in the United States would immediately begin to find it necessary to protect the American gold reserve against Indian demands. Even if this protection were only to take the form of a more stringent monetary policy with higher rates of discount, it would have the effect of pressing down continually and progressively the general level of prices both in the United States and in other countries. Thus we should be faced with the calamity of falling prices and a consequent general depression of the world's economic life, from which we have sought to protect ourselves by aid of a rational monetary policy. For the carrying through of such a policy, based on a systematic economising in the use of gold, it seems to be a *conditio sine qua non* to prevent any great extra demand for gold from arising on the part of India. The conclusion is, therefore, that the suggested scheme for the introduction of the gold standard in India is absolutely opposed to the fundamental interests of the world's economy at large.

I wish to point out that in my opinion the results now described would be substantially the same, even if the extra demand for gold should turn out to be considerably lower than has here been assumed. Already, the large Indian demand for gold has a clearly depressing influence on the general level of prices in gold standards.

So far I have only discussed the proposed gold standard for India from the point of view of the economic interests of the world at large. Of course, India is a part of the commercial world and thus far has the same interest as all other countries in the stability of the general level of prices and in an uninterrupted development of production and trade. But the proposed introduction of a gold standard in India must also be judged with regard to its more immediate effects on India.

In the Scheme which has been submitted, an estimate has been made both of the permanent and of the initial costs connected with the introduction of the gold standard. According to what has been said above, this estimate must be considerably exceeded. But I am not in a position to form any exact idea of the sum to which the costs will actually amount.

The Scheme, however, has taken account only of the costs which would devolve upon the Government. But a correct judgment of the plan is possible only if due regard is also taken to the loss which the Indian people are bound to suffer in consequence of the artificial depression of the price of silver. The Scheme assumes a depression from the present price of over 30d. to about 24d. per standard oz., which means a reduction of 20 per cent. If the exchange of silver hoards for gold were to assume the greater proportions of which I have spoken above, it seems not improbable that the depression of the value of silver will go still further. But even a loss of 20 per cent. is serious enough, if account is taken of the whole mass of silver now hoarded in India. For a country which has for centuries accumulated treasure in the form of silver and now possesses such huge amounts of this metal, it must seem to be a rather strange policy deliberately to introduce such measures as are certain to depress the value of silver and thus to deprive the country of a considerable part of its accumulated wealth. This consideration must every day be a factor of practical importance for some holders who have to sell silver out of their hoards. It seems particularly odious to adopt a policy involving heavy losses to the poorer classes in whose hoards silver probably plays a preponderant part.

Under such circumstances it seems difficult to advocate the scheme of a gold standard on the ground of the general economic interests of India. If a gold standard is to be adopted, it must be shown that such a measure is of quite overwhelming importance from a monetary point of view. This of course involves a comparison between the proposed gold standard and the present monetary conditions. The following paragraph will be devoted to a discussion of this question.

III.—Recommendations.

When a radical change of the monetary system of a country is proposed, one must first of all ask whether the change is at all warranted, i.e., whether the existing conditions are so bad that a sound development on the basis of them is impossible. In the material submitted to me there is nothing to show that the

present monetary organisation of India really suffers from any such serious faults as would call for a radical change. In monetary matters a sound conservatism is always good policy. I, therefore, think that the first question to answer is this: Can a really good monetary system for India be constructed by preserving the essential features of the existing system and by introducing such minor modifications as may prove necessary?

In my opinion this is quite possible. The monetary system which India possessed from the time when the rupee had been stabilised at a gold value of 1*s*. 4*d*. up to the War must, on the whole, be said to have worked fairly well. Of course, the War brought about serious disturbances, and India, like all other countries, had to suffer from the general breakdown of the world's monetary machinery, which was a consequence of the War. But there are reasons to believe that the Indian currency suffered much less than most other currencies. In fact, the internal purchasing power of the rupee showed a remarkable stability. The violent fluctuations of the exchange were to a great extent an unavoidable consequence of the fluctuations in the value of the British currency and in the value of gold. Further, India comparatively soon overcame these difficulties, and the rupee attained a fairly stable gold value at about the same time as the pound sterling was restored to its gold parity.

The aim of the Indian monetary policy must, therefore, in my opinion, be to stabilise the exchange value of the rupee in terms of gold. The choice of the rate of stabilisation being naturally of the utmost importance for the success of the stabilisation policy, great care should be taken in ascertaining what rate of exchange corresponds most truly to the present conditions. It may, perhaps, be said that the relative prices of different groups of commodities and of labour have not yet attained the necessary equilibrium to offer a reliable basis for a stable purchasing power parity of the rupee. On the other hand, it is not advisable any longer to postpone the definite fixing of the gold value of the rupee. A stable currency will certainly contribute very much towards stabilising the internal economic conditions of the country. Whether the present price of the rupee at about 1*s*. 6*d*. is an accurate expression for the internal purchasing power of the rupee in comparison with that of the British currency is a difficult question, and I have not the intimate knowledge of Indian conditions necessary to form an opinion on this subject. But the fact that it has been possible for a considerable period to keep the value of the rupee in the neighbourhood of 1*s*. 6*d*. seems to speak for the probability that it will prove possible to maintain this external value for the future without having recourse to any measures which would mean a deliberate alteration of the internal purchasing power of the rupee.

The idea that the rupee must necessarily be restored to the pre-War gold parity of 1*s*. 4*d*. has a striking resemblance to the programme of raising depreciated currencies to their pre-War parity, which has played such an unfortunate rôle in the recent monetary policy of many European countries. If no better reason can be given for choosing 1*s*. 4*d*. as the value at which the rupee should be stabilised, the idea ought to be abandoned, and the sooner the better. If on closer investigation it is shown that the present purchasing power parity of the rupee lies in the neighbourhood of 1*s*. 6*d*. a lowering of the value of the rupee from 1*s*. 6*d*. to 1*s*. 4*d*. means a process of inflation which is just as harmful as the deflation which in some European countries would be required in order to raise the value of the currency to a higher pre-War level. The leading principle must be to stabilise every currency at its present value. Where there is some uncertainty with regard to this value, where, for instance, there is a difference between the external and the internal value, we have to choose such a stabilisation rate as will cause the least possible disturbance.

The stabilisation of an abstract unit of value at a fixed gold parity is a programme the practical possibility of which is proved by long experience. In fact, the pre-War rupee was for many years kept in a stable relation to the British currency, and after the War it has proved possible to stabilise even the most ruined paper currencies at a certain gold value. The failure of the recommendations of the Babington-Smith Committee should not be taken as a proof of any insuperable difficulty in the problem. In 1919 an effort to give the rupee a fixed gold value was absolutely premature. The value of gold itself was then subject to the most violent variations that have occurred in historic times, and the conditions of international trade were still extremely unstable. In these respects the present situation is radically different. Since the great deflation in 1920-21 the value

of gold from the middle of 1922 has attained a remarkable stability. The British currency has been restored to its gold parity, and the commercial world, with minor exceptions, has settled down to work on a gold standard basis. At the same time, in spite of all hindrances, international trade is returning once more to fairly regular conditions, at least in regard to its means of payment and of their general purchasing power. Under such circumstances it must be said that the time is now ripe for fixing the gold value of the rupee at the level at which it has already begun to stabilise itself. The only real danger which from the side of gold could threaten such a stabilisation as the scheme for introducing a gold standard in India which has been criticised above. Such a policy would undoubtedly expose the value of gold to serious and almost incalculable alterations, and would, therefore, make the maintenance of a fixed gold value of the rupee both a difficult and dangerous undertaking.

There seems to be no doubt that the rate of stabilisation chosen by the Babington-Smith Committee, viz.—2s. gold for the rupee, meant a very considerable over-valuation of the rupee in comparison with its purchasing power parity with gold at that time. But any attempt to maintain a much higher exchange value for a currency than corresponds to its internal purchasing power is inevitably doomed to failure, particularly if it is not backed by the most severe measures to contract the currency and thus to increase its internal purchasing power. An artificially high exchange value can only result in the balance of trade being turned against the country. This was precisely what happened in India. Here again the inevitable failure of the Babington-Smith experiment should not be allowed to discredit a rational policy aiming at the stabilisation of the rupee at a value truly corresponding to its actual purchasing power. The Babington-Smith stabilisation policy was also so far premature that India had not yet at that time a central bank entrusted with the power to regulate the whole currency of the country.

A gold standard is in its essence an abstract standard where the price of gold has been fixed, not absolutely, but so far that variations of the price are restricted within very narrow limits. This is the same as to say that the unit of the currency has an approximately fixed gold value. The fact that the unit of the currency is in such a way connected with gold is what essentially characterises the gold standard. All other traditional attributes of the gold standard are of entirely subordinate importance. After the great revolution in the world's monetary system, the fixed gold parity stands out more clearly than ever as the only lasting and necessary feature of the gold standard. The new British currency system is an expression for that purification of the conception of the gold standard which has now taken place. According to this view, a rupee stabilised at the value of 1s. 6d. is essentially a gold standard. To combine the introduction of such a gold standard with a series of measures of a merely conventional character is, in fact, to go back to the ideas of the gold standard which prevailed in the monetary reforms of the 'seventies of the last century.

Among unnecessary accessories of the gold standard is particularly to be reckoned the introduction of gold coins in the circulation. Sweden has never allowed herself such a luxury and still has always been able to maintain her gold standard in a very satisfactory state, except for the period of War disturbances. India ought to refrain from the use of gold as a circulating medium not only because it is too expensive, but also because an Indian demand for gold for that purpose would, as explained above, mean an intolerable aggravation of the scarcity of gold for the world at large.

Another measure prescribed by the traditional etiquette of the gold standard is the abolition of the full legal tender character of silver coins. It is difficult to tell what practical purpose this measure would serve. The theoretical motive is of course that silver coins, the metallic value of which is considerably less than their face value should not be recognized as means of payment to unlimited amounts. But bank notes have no intrinsic value at all and still usually possess the quality of unlimited legal tender. As long as a currency is kept in a definite parity with gold it is obviously of quite secondary importance what means of payment are used. What are the real drawbacks of using silver? It is true that if the value of silver should fall, the silver coins would have a reduced intrinsic value. But this is quite irrelevant, as they are not taken for their metallic content, but as representatives of the rupee. Again, if the value of silver should rise, this movement is equally irrelevant as long as the silver value of the rupee does not exceed its fixed external value. In the latter case, some inconveniences would be caused by the disappearance of silver coins from circulation. But such

an event is not very probable. The fact that it has happened in a period when the value of gold was extraordinarily depressed and the internal purchasing power of the pound sterling was still more reduced, does not make the return of such an event more probable.* As has been explained above, gold is most likely to rise in value in future, and therefore the metallic value of the silver rupee in terms of gold is more likely to fall beneath the present level of slightly more than 11d. than to rise above it. If the rupee is stabilised at a gold value of 18*d.*, the margin for a possible rise in the price of silver seems to be broad enough. It is therefore quite unnecessary for India in any way to alter the legal tender capacity of the silver coins. The most important interest of India in this respect is *not* to depress the value of silver by quite unnecessary measures tending to a further demonetisation of silver.

Thus there is no need for radical alterations in existing conditions. India can have a stabilised standard on a gold basis without much fresh legislation, merely by a rational development of its present monetary system. The value of the rupee should be kept in a constant relation to that of gold, the parity being, say, 1s. 6d. gold, and only very small variations over and beneath this parity being allowed. The circulation should consist of silver rupees and of bank notes, both having the character of unlimited legal tender. The value of the rupee should be secured fundamentally by a sufficient limitation in the supply of these means of payment. This supply should in its entirety be regulated by the central bank, and fresh means of payment, whether in the form of notes or silver rupees should be put into the hands of the public exclusively in the form of advances by the Central Bank. From the present point of view, there is no difference between silver coins and bank notes, and therefore no dualism in the conditions under which they are supplied to the public can be justified. Particularly it is of primary importance that the Government should be excluded from any possibility of increasing the circulation by issuing means of payment to the public, whether in the form of notes or rupees, printed or coined for the purpose. Government finance must not depend on any such means for creating purchasing power.

Of course, it is an advantage for India to make the fullest possible use of bank notes in her circulation. To this end the system of banking should be methodically extended over the whole country, and people should be encouraged to keep their private reserves in banks or in saving certificates or other investments. When this becomes a general custom people will find it quite natural to use bank notes for their payments. In this way, if at all, it will be possible to combat the habit of hoarding, which is, perhaps, the most important cause of the poverty of the Indian people and the greatest hindrance to a strong economic development of the country. The agricultural population of India ought, of course, to use their savings primarily for the direct improvement of agriculture, and every facility should be given to supply the Indian peasant with the necessary credits for improvements beyond the limits of his personal savings. If this were done the need for hoarding would be very much reduced, and India could use her present export surplus to buy agricultural machinery and implements, iron and steel and such things, instead of unnecessary precious metals. In fact, the Royal Commission on Indian Agriculture seems to be the body which can do most to rationalise the habits of the Indian people with regard to the use of currency.

If the note circulation is to play a preponderant part in the Indian monetary system, it is natural that the regulations with regard to the reserve for this note circulation should require close attention. However, first of all it is necessary to make clear what is the purpose of the reserve. The old idea that the reserve in some mysterious way supports the circulation, or is a foundation of its value, has to be abandoned. No reserve can give a currency a higher value than it has on the basis of a distinct scarcity in the supply of means of payment. The function of the reserve as regards the value of the currency can only be to prevent the small fluctuations in the exchange which can take place even when the internal purchasing power of the currency is kept at its right value. For this purpose the reserve must be able to furnish such amounts of foreign currency as may be demanded at any moment. Further, the reserve has, of course, to supply the people with the silver coins that may be requird.

* Even the high price of 78*d.* per standard ounce which was attained on the 17th of December, 1919, and which made such an impression on the Babington-Smith Committee corresponded only to the general rise of British commodity prices, *i.e.* to the depreciation of sterling in terms of commodities. Reckoned in commodities the value of silver was at that time by no means extraordinarily high.

The reserve must protect the silver circulation as well as the note circulation. There can be no line of demarcation between these two functions. Therefore, there should be only *one* reserve. This common reserve should, as said before, contain a certain amount of silver rupees in order that the notes should always be convertible into coins. It is an open question whether the Bank of India should be obliged to sell gold in bars at a fixed maximum price. If this is regarded as desirable the reserve ought to contain a suitable amount of gold in bars held in India. It is not necessary that this amount should be very large. For if any demand for gold should appear it would always be possible within a short time to increase the gold holdings in India by importation.

For the rest, the common reserve would only have the function of guaranteeing that exchange could always be sold at a price in the neighbourhood of the fixed par of the rupee. For this purpose it is convenient to have reserves in those foreign financial centres on which the demand for exchange usually preponderates. For India, by far the most important external financial centre is, of course, London, and it is, therefore, quite natural that the reserve, which has to guarantee the external stability of the Indian currency, should to a great extent be kept in London. However, it seems natural to keep a part of the reserve in New York, and, on the whole, it seems to me that the authorities of the Bank of India ought to have some discretion in the choice of the location of the reserve.

Once the purpose of the reserve is made clear, it is not necessary to say much about the composition of the reserve. There is obviously no reason for laying up a huge store of metallic gold. Except for the limited amount that would be required in India for selling gold bars at demand, there would be no need for gold in the reserve. The foreign assets, which should be at immediate disposal for meeting exchange demands, could most conveniently consist of deposits with banks in London and other financial centres. The traditional metallic fund, which is never to be touched, seems to be a rather senseless idol, too costly to be worshipped by a modern people.

The most natural cover for bank notes or silver coins in the circulation is without doubt regular trade bills with short maturity, serving as a self-liquidating asset. Indian domestic bills of this description should naturally form an essential part of the cover kept against the circulation. Another part of the reserve could conveniently consist of general trade bills in sterling and dollars, held in India or abroad. There seems to be no sufficient foundation for the idea that a part of the reserve ought necessarily to be invested in Government securities. If these securities are those of the country itself the system involves obvious dangers, and should in principle be abandoned. However, a concession to the existing conditions can be made in so far as a strictly limited amount of Indian Government securities may be allowed to form part of the reserve. To the practice of investing part of the reserve in securities of other Governments within the British Empire there are not the same objections, provided only short-term maturities are selected.

Finally I desire to emphasize the importance of making the Central Bank absolutely independent of the financial interests of the Government. There must be a clear distinction between the functions of the Treasury and the functions of the Bank. The Government should meet its expenses from taxes and other sources of real income, or from genuine loans from the public, but should have no opportunity of creating fresh means of payment for the purpose. The Government should also in the ordinary way of business buy from the Bank such amounts of sterling exchange as they may require from time to time for payments in London. If it is considered necessary that the Bank should extend credits to the Government, there should be a narrow and definite limit to such credits.

When the whole circulation is regulated by the Bank and fresh means of payment are only issued as advances of the Bank, the circulation will attain its proper elasticity. On the one hand, trade's extraordinary need for currency will be satisfied by seasonal extensions of the Bank's advances, and on the other hand, a superfluous currency will be contracted in a natural and smooth way by the repayment of such advances. Under such conditions a wise bank policy will be able to prevent any depreciation of the Indian money, and the fiduciary character of the currency will in no way impair the stability of its value.

APPENDIX 93.

Letter dated 30th April 1926, from Mr. J. Pierpont Morgan, of New York, to the Secretaries to the Royal Commission on Indian Currency and Finance.

I have received your letter of 20th April containing the questionnaire entitled "Proposed questions to be asked the American witnesses by the Chairman of the Royal Commission on Indian Currency and Finance," and, "Particulars of a scheme for a Gold Currency for India, which has been suggested to the Commission in evidence," which I have read with great interest.

I regret that it is not possible for me to be in London before the end of the summer, so that I cannot appear in person before the Commission. Furthermore, as I am not an economist or a statistician, but only a practical banker, I do not feel that I could attempt to answer all the very interesting and important questions included in the questionnaire; but the questionnaire itself, and the proposed plan, give rise, in my mind, to very serious question as to the possibility of a successful working out of a plan of this vast proportion and importance without more accurate knowledge of the effort required to produce the final result than would seem to be obtainable even by the best statisticians.

Putting the general matter on one side, however, and coming to concrete comment, I would suggest that the proposal would be generally understood as tending to decrease the value of silver and its buying power over commodities; and, as India is the largest owner of silver already produced, and America is the largest producer of silver in the world, it would seem that both India and America would look with great concern upon a step which would tend to depreciate the value of silver.

I would refer to the fact that after the Franco-German War of 1870, when Germany demonetised its silver and established a gold currency, there was a long period of world-wide liquidation which enhanced the value of gold, or, in other words, caused a fall of prices everywhere, and lowered the value of silver.

The foregoing doubts would naturally be present in the minds of well-informed people in this country and would, therefore, have an important bearing on the single question which I feel competent to answer. This question is B, No. 9, which reads as follows :—

> "Would a proposal by the Government of India to obtain such credits in New York for the purpose of carrying out the scheme referred to (for putting gold into circulation in India, concurrently with the sale of silver) be likely to encounter any such difficulty as would make it undesirable to contemplate that step?"

In answering this question I may say that—

(1) as I believe the expectation of the enhanced and accelerated demand for gold in India will have a general deflationary influence and embarrass monetary reconstruction in Europe, and

(2) as it is certain that the sales of silver by the Indian Government will have a serious effect on the price of that metal, of which America is the largest producer, and, inversely, upon other metals of which silver is a by-product, and

(3) since it seems doubtful that the Indian Government can measure with exactness either the total amount of gold which would be needed to carry out this plan, or the rapidity with which the gold would be used, and there would, therefore, be a corresponding degree of uncertainty as to the amount of credit required in the United States and the rate at which the gold would be withdrawn from that market,

it is my definite opinion that the proposal of such credits would encounter such serious opposition in the United States as would certainly make it extremely difficult and probably even impossible to give India any assurance that she could float the necessary loans or obtain the necessary credits in this country.

I sincerely hope that the foregoing observations may be of some assistance to the Commission in connection with the important inquiries that it has in hand.

APPENDIX 94.

Statement of evidence submitted by Mr. Jas. S. Alexander, Chairman of the National Bank of Commerce in New York.

There is presented to me for consideration two documents: a project which has been presented to the Commission and a questionnaire prepared by the Commission designed to bring to light the probable effect of the adoption of the project. The project as outlined suggests problems of extraordinary complexity. Because of this complexity and because of the lack of necessary basic data, it is impossible to approximate an accurate estimate of the probable effect of its adoption. It possesses, however, some highly important potentialities which may profitably be discussed.

The Commission has asked me to answer a series of questions based upon the outline of the project, and to aid in the discussion of the questions has made assumptions as to the volume of gold required to carry out the project.

The assumptions give a somewhat more definite basis for discussion, but this basis is necessarily hypothetical. To answer the questions upon the basis of these assumptions would be to give a series of answers that might leave out important points upon which the effect of the adoption of the project might turn.

There is another reason why it is impossible to give satisfactory answers to most of these questions. Many of the important questions are so inter-related that before a definite answer can be given to any one, we must have answered the others. For example, the answer to the question as to American banking attitude would depend upon the probable effect of the project upon both American and European credit conditions, which would depend upon international fund movements, which would depend partly upon European currency conditions, which would depend upon the effect of the Indian demand upon the reserves of Great Britain and continental countries, which would depend upon the use which India would make of its reserves in London and upon the other means which India would resort to to obtain additional gold, which would depend upon the Indian demand for gold under the new scheme—all of which, it appears, would depend to no small extent upon the indefinite and intangible factor of Indian psychology operating under a new condition with respect to the use of gold. Moreover, at every point in this sequence of dependencies there are other uncertain points which might alter the trend of events at any succeeding point.

When we consider any of the other important questions, such as the cost of the project to India, direct and indirect, the effect of the project upon the silver market, upon the stability of the gold standard, upon the gold price level and upon wages, standards of living, &c., we are confronted with a similar series of sequences at points in each of which are to be found other uncertain and immeasurable factors.

Notwithstanding the uncertainty as to the result of the adoption of the project, there is clearly inherent in it potentialities of great importance to India and to the rest of the world, and it is practicable to point out some of the possible consequences of the adoption of the project.

The Commission's questions all point to six general lines of inquiry:—

(1) the effect of the adoption of the project directly upon the stability of the currency of leading nations;

(2) the effect of the adoption upon the gold standard throughout the world and upon the value of gold, and, therefore, upon the trend of price levels, trend of wages, &c.;

(3) the effect upon the silver market and upon the silver and allied industries and possible repercussions upon other industries;

(4) the effect upon India particularly—the cost of the project and the reactions of consequent world readjustments upon India;

(5) the effect upon credit conditions in the United States and in other leading countries and the attitude of these countries toward loans to India;

(6) the advisability of selecting the present as the time for entering upon the project.

In approaching any of these lines of inquiry, it at once becomes clear that, before a conclusion can be formulated, one must have a definite notion as to three main points necessarily involved in the plan, namely:—

(1) the volume of gold which India would absorb under the new scheme;

(2) the sources whence this gold would be drawn;

(3) the means taken to acquire this gold.

In view of the mal-distribution of gold occasioned by the war and post-war period, and particularly the large gold reserves lying in the Federal Reserve vaults, we in America have looked with favour upon developments calculated to assist other nations to return to the gold standard and to bring about a more nearly normal distribution of gold. Having in mind the habits of most countries with respect to gold and the present tendency in many countries to economise in the use of gold, we have felt that the withdrawal of gold from the United States would not occur in such volume at any one time as to cause serious disturbance in this country. In general, our attitude is one of close sympathy with the plans of any nation directed toward the restoration of the gold standard. As soon as we approach the larger aspects of the present Indian project, however, we are confronted with the fact that this project, because of its tremendous potentialities, constitutes a problem entirely different from any of the gold standard problems raised in Europe, or, indeed, in other parts of the world.

The first line of inquiry, as indicated above, is the amount of gold which India would require for carrying out the project and for maintaining it. India has tremendous hoards of gold—clearly an amount in excess of that which would be required in America or Europe to sustain under a complete gold standard a volume of business equal to that of India's. If it were possible for India to mobilise the gold now in the country and to utilise it for monetary purposes along lines similar to those of America or European countries, it would not be necessary for India to call upon the outside world for gold in addition to normal requirements. In this event, it is conceivable that India could adopt the gold standard without causing a serious disturbance of the value of gold or of the currency and trade conditions in other countries.

Whether such an accomplishment is at all within the range of possibilities is a question which certainly no one, not having had long intimate contact with Indian life, can answer. Such information as has been given by authorities on Indian currency and by foreigners who have had long experience in India raises grave doubt as to the possibility of such an accomplishment.

That there is some doubt on this point in the Commission's mind is evidenced by the assumptions in the questionnaire that the project would "involve the absorption by India of about £103,000,000 of gold (in addition to normal requirements for arts, hoards, &c."), of which it is assumed that £50,000,000 would be required within a year. Whether the carrying out of the project would require this amount or much less or indeed very much more, and whether the sustaining of the plan once it was initiated would require a much more rapid accumulation of gold than that suggested, depends so much more upon the unknown factor of the Indian psychology that it seems that no opinion could be of very great value.

If, however, we assume, as the Commission has requested, that the possible additional absorption of gold could be limited to the amount suggested in the questionnaire, we have a basis for discussion, albeit hypothetical. We should bear in mind that from the purely quantitative aspect the importance of such absorption of gold would depend upon the amount of gold still to be required by Europe before the programs for stabilisation now under way could be carried forward to completion. It should be borne in mind that of the 25 countries of Europe, only about one-half are upon any form of gold basis, and that among the nations comprising this one-half are several whose complete programs have not yet been carried out and some whose economic and financial conditions are such that in the case of any considerable shock the continued stability of the currency could not assuredly be maintained.

Just how much more gold European nations will require when the final stabilisation plans have been completed, it is now impossible to say. The uncertainty existing as to the policy which numerous European nations will find it necessary to follow with respect to the substitution of foreign exchange holdings for gold, together with the impossibility of knowing to what extent European peoples will return to hand-to-hand circulation of gold—these uncertainties render it impossible to estimate the probable European demand for gold.

Owing to the strength of the American gold reserves, it would be practicable, if carried out gradually, for America to part with 500 million dollars of gold, providing the prospective European demand remained within the limitations now in sight.

In this connection, however, we should not forget the extraordinary absorption by India during the last three years. Before the war India normally absorbed between 10 and 20 per cent. of the world's annual production. Within the last three years she

has absorbed an average of about half of the world's production. It seems improbable that such an absorption of gold as that recently occurring in India, in the light of the reduced world output of gold as compared with that of the pre-war, could have been possible had European nations returned to a normal gold basis without occasioning an extreme shortage of gold and affecting world price levels.

If India could restrict her ordinary absorption of gold to the average proportions before the war, and if European nations, through economies in the use of gold, could return to the gold standard by the use of a relatively less amount of gold than before the war, then it is conceivable that India, by utilising part of her recent excess importations and perhaps some moderate excess importations in the future, might adopt the gold standard without impeding European recovery and without disturbing world price levels. This conclusion, however, rests upon two debatable assumptions, namely, a restricted use of gold in Europe, and, second, the return of India to ordinary gold requirements for her ordinary purposes. Notwithstanding the explanations which have been given for the recent extraordinary absorption of gold by India, it would appear that India's future demand for gold for so-called normal purposes must remain uncertain. In summary, the answer to one of the most fundamental questions, namely, the amount of gold which India would absorb, must be that clearly we cannot know in advance.

From the point of view of the effect of the Indian project upon the stability of European currencies and upon the trend of trade, and from that of possible repercussions upon India and the United States, the factor which is at this time fully as important as the amount of gold to be absorbed by India is the sources from which India would withdraw this gold.

If the gold absorption by India could be limited to the amounts suggested in the questionnaire, and if the gold could be withdrawn from America in such a way as not to curtail American credit extensions to Europe, the transfer might be made without any considerable disturbance to world currency conditions. However, it is not at all clear just how this could be done. Inasmuch as there exists no excess reserves in the commercial banking system of America, the excess gold all being lodged with the Federal Reserve system, and inasmuch as short of a direct gold loan by the Federal Reserve Banks to India (a project that appears highly improbable) there is no means whereby the gold can be shipped from America without causing a contraction of credit in this country amounting to anywhere from $2\frac{1}{2}$ to 10 times the amount of the gold shipped out, it is highly unlikely that any considerable amount of gold could be shipped from this country without causing a contraction of American credits to Europe unless the Federal Reserve system should see fit to place additional credit in the market by buying securities or to establish such rates concerning rediscounts as to render it profitable for American banks to increase their indebtedness to the Federal Reserve system and thus to rely upon additional borrowings from the Federal Reserve system to replenish losses incident to the outflow of gold.

It is impossible for an individual banker or a group of bankers to forecast what Federal Reserve policy in this respect might be. In view of the high degree of uncertainty existing in the Indian proposal and the possibilities for unfavourable repercussions upon European and American business and finance, it is difficult to see how the Federal Reserve banks could co-operate in the carrying out of this plan. In the event that the plan were initiated and the stability of European credit conditions threatened, it might be necessary for the Reserve system to support the European situation. There might, however, develop limits to which the Reserve system could co-operate if the European situation became too serious. If the Federal Reserve system did not make a direct loan to India, or by open market operations or favourable discount rates did not make it possible to offset credit restrictions incident to outgoing gold, then there would occur a contraction of credits to Europe. Whether the gold were drawn from New York under these conditions, therefore, or whether it were withdrawn directly from Europe, the chief burden of the gold drain to India would appear to rest principally upon Great Britain in the first instance and probably to some extent, possibly to a considerable extent, upon several continental countries in the second instance.

And this brings me to what appears to my mind to be the most important aspect of this whole project, namely, the far-reaching possibilities of a present drain upon the gold reserves of Europe. After 10 years of chaos in the currency of many of the principal countries of the world we are only just now getting back to a

measurable degree of stability. As previously indicated, some of the countries which have recently attained stability are still in the convalescent stage, and no one can now forecast how much of a new shock could be withstood. Numerous other countries are still struggling with the problem of stability, and their ability to attain stability is clearly conditioned upon the maintenance of recently attained stability in other countries.

In Great Britain the favourable balance of payments has continuously declined in the last several years, and while it is probable that Great Britain still has a modest favourable balance of payments, the trend of the trade balance raises apprehension as to the future. Germany is still going through a process of rigorous readjustment. In Italy the currency is not yet stabilised, and the recent adverse movement of trade leaves a measure of uncertainty. The present distressing situation in both France and Belgium needs no comment. Poland has once more slipped back into the condition of marked instability. Norway and Denmark have recently made considerable progress, but the final stability of the currency has not yet been attained in either country. In both Austria and Hungary the outlook appears to be favourable, providing no untoward event occurs which might shake confidence in the general European situation, and lead to an attempt of foreign banks to withdraw credits extended to these countries. It is agreed in both of these countries that any such attempt might cause serious embarrassment. Several small countries, including Switzerland, Holland, Sweden and Finland, appear to be firmly established upon the gold basis, but it would be difficult to forecast how well even these countries could withstand the reactions from a severe strain placed upon other continental countries.

It is impossible to forecast to what extent a serious drain upon London would result in a drain of English funds from the Continent and thus in a movement on the part of continental countries to prevent the outflow of their reserves. Again, the possible repercussion of such a movement upon the credit of Europe in America, and upon the trade movements of Europe and of the world, cannot be approximated. And this suggests what I conceive to be the most dangerous aspect of seriously considering the adoption of the Indian project at this time, namely, the high degree of uncertainty which it injects into the whole European situation. It is this element of uncertainty which, more than anything else, might serve to destroy the reviving confidence in Europe.

The third consideration that goes to the root of some of the questions listed in the questionnaire is the means to be taken to acquire this gold. If we assume that the gold required for the scheme will be in excess of that which would be imported and paid for in the usual way by the favourable annual balance on international account, there appears three theoretical ways that this gold could be secured :—

(1) By a loan from the Federal Reserve banks.

(2) By a private loan in Great Britain or in the United States.

(3) By utilising present Indian assets, including Indian reserves in London, and the Indian silver holdings.

As already indicated, it may be assumed, I should think, that the Federal Reserve banks could not consider a loan to India for this purpose—certainly not at this time, and not until the project could be modified in such a way as to give definite assurance of no untoward effects upon business and finance in America and in Europe.

Concerning the second suggestion, much the same should be said. American banks could not advance money for a project that threatened to bring disturbance to American business, nor could they be expected to recommend such a loan to the American investing public. For somewhat analogous reasons it would seem unlikely that the British or continental banks or investors would at this time seriously consider a loan for this purpose.

India would, I think, find it necessary to rely upon sources within her own domains or upon balances she possesses or might accumulate abroad. How far India could embark upon the project by the aid of balances now held abroad it is impossible to say, but if the project proved to be disturbing to world currency and trade conditions, the resulting depression in other countries might be so reflected upon Indian trade as to prevent her accumulation of additional balances abroad with which to purchase the additional gold needed to support the project.

There remains one important means, namely, the sale of a large part of India's silver holdings in the world's markets. It is suggested by the memorandum that such sale as is proposed might cause the decline of silver to 24*d.* There are so many factors of uncertainty in the project that it would appear that any estimate as to the level that the price of silver would reach before it could be stabilised must at this time, or until the project was well under way, necessarily be little more than pure guess. When one considers the place which India occupies in the world consumption of silver—in recent years she has taken about one-third of the world's annual production—he cannot resist the conclusion that the closing of the Indian market would bring a collapse in the world's silver market and the downward plunge of the price of silver. When one adds to this the prospect of India's dumping upon the world annually for a period of 10 years an additional amount of silver equal to about one-third of the world's total annual production, the prospect for price demoralisation becomes immeasurably increased. It is, of course, true that any sudden decline in the price of silver would restrict silver production, and this restriction would in time bring the decline of the price to a halt. In this connection, however, it should be borne in mind that an important part of the silver production in America results as a by-product from the mining of copper and lead, and that notwithstanding the decline of the price of silver the continued production of a certain amount of silver in those industries even at a loss must continue. No one can determine in advance the point at which the decline in the price of silver could be stopped.

While, as I have said, I believe any estimate must be of little or no value because of the many unknown factors, my judgment is that the price of silver would decline far below 24*d.* It would appear to be well within the range of possibility that the price might fall as low as 15*d.* and even lower.

This all presupposes, of course, that the Indian Government would continue to sell silver until it had disposed of the amount suggested in the project. As a matter of fact, the rapid decline of the value of silver would, in my judgment, bring about such a loss in the value of the Indian silver holdings, including hoards, as greatly to impede the carrying out of the project.

It would now be possible to go into some detail regarding the six main propositions into which the questions asked by the Commission resolve themselves, and which are set forth on page 1. I think, however, that the answer which can be made to these questions has been fairly well indicated in the preceding discussion. The outstanding point appears to be the high degree of uncertainty that would arise from the adoption of the project—particularly at this time.

No one, of course, can question that India has clearly as much right to adopt the gold standard as any other country. However, no nation should consider a serious readjustment of the currency without taking into account the relation of the project to the stability of the currencies in other countries. This is particularly true with respect to the gold standard, which affects so many nations—in fact, the present and future of the entire world. Any step which would endanger the stability of other countries must necessarily lessen the value of the gold standard and ultimately react upon India. My conclusions are, therefore, that India in working toward the gold standard should adjust her plans in such a way as not ultimately to disturb the gold price level, and that the time selected for the adoption of the gold standard should be when the currencies of other important countries formerly upon the gold standard are more firmly established upon the old basis. The present time is clearly inopportune, and I believe that if an attempt were made to carry out the project in its present form at this time the direct and indirect losses which would accrue to India would outweigh any possible gains.

APPENDIX 95.

Documents circulated to Witnesses in the United Kingdom and the United States of America.

A.

Copy of a Memorandum circulated to Witnesses in India.

The following memorandum, indicating the main questions which will come under the consideration of the Royal Commission on Indian Currency and Finance under its terms of reference, is published in order to assist intending witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised :—

(1) Is the time ripe for a solution of the problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise?

What is the comparative importance of stability in internal prices and in foreign exchanges?

What are the effects of a rising and a falling rupee, and of a stable high or low rupee, on trade and industry (including agriculture) and on national finance?

(2) In relation to what standard and at what rate should the rupee be stabilised, if at all?

When should any decision as to stabilisation take effect?

(3) If the rate selected differs materially from the present rate, how should the transition be achieved?

(4) What measures should be adopted to maintain the rupee at the rate selected?

Should the Gold Exchange Standard system in force before the war be continued, and with what modifications, if any?

What should be the composition, size, location, and employment of a Gold Standard Reserve?

(5) Who should be charged with the control of the note issue, and on what principles? Should control or management be transferred to the Imperial Bank of India, and, if so, what should be the general terms of the transfer?

What provisions should be made as to the backing of the note issue?

What should be the facilities for the encashment of notes?

What should be the policy as to the issue of notes of small values?

(6) What should be the policy as to the minting of gold in India and the use of gold as currency?

Should the obligation be undertaken to give gold for rupees?

(7) By what method should the remittance operations of the Government of India be conducted?

Should they be managed by the Imperial Bank?

(8) Are any, and, if so, what, measures desirable to secure greater elasticity in meeting seasonal demands for currency?

Should any, and, if so, what, conditions be prescribed with regard to the issue of currency against hundis?

(9) Should any change be made in existing methods for the purchase of silver?

NOTE.—The above questions were circulated to witnesses in India. As the result of the oral and written evidence received in India, the relative emphasis to be laid on the various matters dealt with has become clearer, and accordingly the attached memorandum and supplementary list of "Questions to be asked by the Chairman" have been prepared for the information of witnesses.

B.

Memorandum entitled "A proposed Scheme for a Gold Standard for India."

The following outlines of a gold standard system, on the assumption that the management of the paper currency and the conduct of the remittance operations of Government are transferred to the Imperial Bank of India, have been brought to the notice of the Commission. It is considered that it will assist the examination of witnesses if they are in possession of these outlines, and this memorandum is accordingly communicated for the personal information of witnesses. It should be understood that its contents are strictly confidential, and that its proposals do not in any way emanate from the Commission.

Details of the Scheme.

2. The details of the scheme, after its complete introduction, are as follows :—

(*a*) Gold coin and bank notes to be unlimited legal tender and silver rupees up to Rs. 50 only.

(*b*) Government to be under statutory obligation to give gold coin in exchange for gold bullion at any time on payment of a seignorage to cover minting charges.

(*c*) The Imperial Bank to be under a statutory obligation to buy gold in the same way as the Bank of England and at a price fixed on a similar basis.

(*d*) Bank notes to be payable on demand in gold coin.

(*e*) The constitution of the new reserve to be as follows :—

(i) Gold holdings ordinarily to be not less than 30 per cent. of gross circulation, but may be reduced to 20 per cent. on payment by Bank of a tax of 6 per cent. on amount by which invested portion exceeds 70 per cent.

(ii) At least 20 per cent. of invested portion to be gold securities or trade bills drawn in India in sterling and having a currency of not more than three months.

(iii) Remaining investments to be Government of India securities up to a maximum of 90 crores and internal trade bills or other self-liquidating securities.

(*f*) The Bank to undertake to keep the Secretary of State supplied with funds to meet the sterling charges of Government.

Difficulties in immediate Introduction of full Gold Standard.

3. The rupee cannot be limited as legal tender as proposed above unless an opportunity be first given of converting the rupee holdings into gold. The magnitude of this liability is indeterminate, because it is not possible to estimate with accuracy the amount of rupees outstanding and the portion thereof which would be presented for conversion. Based on the best possible method of calculating these amounts, it has been suggested that the maximum number of rupees outstanding is about 350 crores, of which, at the average rate of 5 per head of population, about 150 crores will be required for circulation if the rupee became limited legal tender. Of the balance of 200 crores, 90 crores are in the Government's currency reserve, and the balance will be presented for conversion into gold. It would not be possible to provide for the immediate conversion of these 200 crores, and it is therefore necessary to proceed by stages.

Introduction of Gold Standard by Stages.

4. The following stages have accordingly been suggested for the gradual introduction of the scheme :—

(i) A statutory obligation should be imposed on Government to sell to any person who makes a demand in that behalf at the Bombay Mint and pays the purchase price in any legal tender, gold bullion at a price equivalent to the par of exchange, but only in the form of bars containing a fixed minimum weight of fine gold (say, 400 ozs. troy). A statutory obligation should also be imposed on Government to give, in exchange for gold bullion, notes or silver at a price equivalent to the par of exchange less a small seignorage charge.

(ii) A gold coin should be put into circulation, and offered as freely as resources permit in exchange for notes and silver rupees at currency offices, treasuries, and branches of the Imperial Bank of India, without any definite obligation to give gold coin for notes or silver rupees being imposed.

(iii) After a period fixed by statute (say, five years) the liability to give gold coin in exchange for notes or rupees, and also for gold bullion on payment of a seignorage, should be imposed.

(iv) After a further period fixed by statute (say, five years) the silver rupee should be made legal tender for sums up to a small fixed amount only (say, Rs. 50).

Sale of Silver.

5. The amount of fine silver in 200 crores of rupees is about 687 million fine ounces and is nearly three times the world's annual production. It would be necessary to spread the sales over a sufficiently long period, not only with the object of obtaining a good price for the rupees sold, but also with a view to diminishing the

disturbance in countries with a silver currency and the adverse effects on the world's silver mining industry. It is assumed that the sales may be evenly spread over a period of 10 years, the period suggested for the introduction of the full gold standard. This would result in an annual sale of about Rs. 20 crores' worth of silver, which is approximately equal to the average net import of silver into India in recent years. The average price obtained by the sales may be expected to be not less than 24*d.* per standard ounce (against the present price of over 30*d.*), i.e. half the exchange value of the rupee would be realised. The resultant deficiency will be met, in respect of the public holding of rupees, by the appropriation of the Gold Standard Reserve and in respect of the currency holding by the creation of Government of India book debt.

Total Demand for Gold.

6. The gold ultimately required for the reserve on the basis of a note circulation of 189·5 crores amounts to 56·9 crores against which there is at present a gold holding of 29·7 crores in the reserve. The total gold required for introducing the scheme in all its stages will thus amount to 27·2 crores for the reserve plus the gold required for converting the 110 crores to be tendered by the public, i.e. a total of 137·2 crores, or £103 millions.

Distribution of the Demand for Gold by Stages.

7. On the introduction of Stage I in para. 4 above, the extra demand for gold would arise only from substitution of gold for rupees already in hoards. Comparatively few hoards would be large enough to buy the minimum quantity sold by the currency authority, and the hoards would not be brought out suddenly. The bullion merchants would probably lay in stocks in anticipation of demand, and the aggregate amount of the first demand from bullion merchants and presenters of the larger hoards would be about Rs. 50 crores' worth of gold. As the reserves would have at the inception of the scheme a gold holding of about Rs. 30 crores, it would be necessary to provide another £15 millions of gold at the outset to meet the first demand on the introduction of Stage I. The period that would elapse between Stages I and II would depend on the progress of conversion of the hoards, and Stage II would be entered on as soon as the gold reserves had accumulated to an extent sufficient to enable a gold coin to be put into circulation, and to enable the supply of such coin to be kept up continuously. During this period the demand for gold may be greater than the supply obtained by the sale of silver, and it might become necessary to supplement the supply by external borrowing. It seems unlikely that the amount of external borrowing will exceed Rs. 30 crores or will be required for a longer period than five years.

Assuming gold currency had been made freely available during Stage II, Stage III would not lead to any great increase in the demand for gold coin. The introduction of Stage IV would probably bring in a few more rupees from hoards, but the additional demand would probably not be very large, as the greater part of the hoards of rupees would have been replaced by gold during the earlier stages.

It is unnecessary to attempt to estimate precisely the amount of gold required at each stage. For all practical purposes it may be assumed from what has been mentioned above that about £15 millions would be required at the time of initiation of Stage I, a further £35 millions within a year, and the remaining £53 millions over a period of 10 years.

Cost of the Scheme.

8. The cost of the scheme finally would represent the difference between the interest on the investments in the reserve as finally constituted and the interest now received; this is estimated at 1 crore. The interest on the Government of India securities now in the reserve and the interest on the eventual holding of such securities do not enter into the question of the cost to the Government on account of the change. During the transition period there would be a further charge on account of the carrying on of metallic stocks owing to the gradual conversion of surplus silver into gold or gold securities, and the interest on external credits which would probably have to be obtained while the gold reserves were being built up. It is estimated that the charge during the transitional period would amount during the first five years to about 1¾ crores a year.

9. The chief points for consideration in connection with this scheme are (i) the extra cost involved, (ii) the possibility of getting the gold required and the effect of

its withdrawal for the purpose of Indian requirements, particularly the effect upon world gold-prices, (iii) the effect of the scheme on the silver market and the possibility of realising a reasonable price for the surplus of silver, and (iv) the effect on the monetary situation of any miscalculation under any of the headings mentioned in the preceding paragraphs.

NOTE.—For the purpose of the calculations in this memorandum it has been assumed that the rate of exchange at which the rupee is stabilised is 1*s*. 6*d*.

C.

Supplementary list of "Questions to be asked the American* Witnesses by the Chairman."

Attention is directed to the plan for the establishment in India of the gold standard, with gold coins as an internal medium of exchange, for the reduction of the status of the silver rupee to that of a token of limited legal tender, and for the sale of silver, set out in the accompanying confidential Memorandum entitled "Proposed scheme for a gold standard for India."

A.—As to the proposals relating to *Gold*—

1. Assuming that these proposals involve the absorption by India of about £103,000,000 ($500,000,000) of gold (in addition to normal requirements for the arts, hoards, &c.), of which it is assumed £15 millions would be required at the outset, an additional £35 millions within a year, and the remainder within 10 years:

What would be the effect of these proposals—

(*a*) on the supplies of credit and rates of interest in America?
(*b*) on the position and policy of the Federal Reserve Board?
(*c*) on the position and policy of the Central Banks—
  (1) of those of the European countries which have put the gold or gold exchange standard into operation?
  (2) of those which are aiming at doing so?

(*d*) generally, on the maintenance and restoration of the gold standard in European countries?
(*e*) on world gold-prices?
(*f*) on the cost of living and on wages in America, Europe, and India?

2. If European countries, and countries overseas whose financial systems are closely tied to European countries, should, as a measure of protection of their gold reserves, curtail the supply of credit, what effect would this have upon America financially and economically?

3. What would be the reaction on India of the consequences which you describe in reply to questions 1 and 2?

4. Assuming that the absorption by India of the £103,000,000 sterling of additional gold is not spread over a period of 10 years, but takes place more rapidly:

What difference would this circumstance make to the consequences which you have described in reply to questions above?

5. Can you express any opinion whether, under the scheme in question, the absorption of the additional £103,000,000 sterling of gold could in fact be spread over the period of 10 years as proposed, or whether it might not have to be supplied more rapidly?

6. Assuming that the amount of £103,000,000 sterling of additional gold required for India might be substantially increased by the withdrawal of more gold into active circulation than is allowed for in the estimates of the scheme:

What difference would this circumstance make to the consequences which you have described in reply to questions 1 and 2 above?

7. Can you express any opinion as to the desirability of the proposals of the scheme relating to gold, in relation to the interests of India, and particularly in view of the cost to India of providing a gold currency by the means proposed?

* A similar set of questions, *mutatis mutandis*, was circulated to witnesses in the United Kingdom.

8. Can you assist the Commission with any evidence as to the probable future relation between the world's demand for gold and its supply, assuming that Indian conditions remain unchanged?

9. In particular, can you give an estimate of the annual increment to the stock of gold for monetary purposes which is needed to keep pace with the economic progress of (*a*) the United States of America, and (*b*) the rest of the world?

10. In how many years will the stock of gold for monetary purposes now held by the United States of America, and at present regarded as redundant, be absorbed in this manner?

B.—As to the proposals of the scheme relating to *Silver*:—

1. Can you assist the Commission with any evidence as to the probable future relation between the world's demand for silver and its supply, assuming Indian conditions to remain unchanged?

2. Assuming the proposals referred to involve the sale over a period of 10 years of an amount of silver equal to about three times the present annual world's production:—

(*a*) What would be their effect on the silver market?
(*b*) What effect would the proposals have on the markets in copper and other base metals?
(*c*) What effect would a fall in the price of silver have on the volume of its production?
(*d*) If a fall has the effect of curtailing production, would it be reasonable to suppose that a fall in the price of silver to 24*d.* would so contract production as to stabilise the price of silver at about that level, and permit of the absorption of, say, 20 crores of rupees annually?

3. In what respects would American interests be affected by the silver sales in question?

4. Having regard to the desirability of the co-operation of the United States in the carrying through of the plan, how, in your opinion, would it be viewed by the Government and the Financial Authorities of the United States of America?

5. What difference would the imposition of a duty on the importation of silver into India make to the consequences which you describe in reply to questions 1, 2 and 3 above.

6. The average annual importation of silver into India for use in the arts, as ornaments, and all purposes other than coinage, for the last five years was 81 million fine ozs.

Assuming that the effect of the proposals under consideration, with or without the imposition of an import duty, would be substantially to reduce the importation of silver into India for these purposes:

What difference would that circumstance make to the consequences which you have described in reply to questions 1, 2, and 3 above?

7. Can you express any opinion as to the desirability of the proposals of the scheme relating to silver, in relation to the interests of India, and in particular the circumstance that silver is a favourite store of values amongst the poorer classes there?

8. Assuming the Government of India requires to raise credits in order to bridge the period between the introduction of a gold currency and the realisation of the silver which it would replace, which credits might amount to $150 million in New York and £23 million in London:

What considerations, arising either from the nature of the scheme or from external circumstances, would militate for and against a proposal by the Government of India to obtain such credits in New York?

9. Would a proposal by the Government of India to obtain such credits in New York for the purpose of carrying out the scheme referred to (for putting gold into circulation in India, concurrently with the sale of silver) be likely to encounter any such difficulties as would make it undesirable to contemplate that step?

10. Assuming that the credit of $150 million would not be required for a longer period than five years, what would be the cost to India of embarking on such a credit scheme:

(1) if the credit is not required to be actually drawn on;
(2) if the credit is only partially drawn on?

11. It has been suggested that the conversion of silver hoards into gold and the introduction of a gold currency will ultimately lead to a reduction of India's demand for gold for non-currency purposes. If this were assumed to be the case, would any modification be necessary in your replies to previous questions?

12. It is relevant to the inquiry of the Commission to consider whether the times are ripe for a stabilisation of the rupee, at a fixed rate in relation to gold or sterling.

Do you consider that there is any factor in the financial situation in the United States of America which would make it prudent to postpone any such measure for stabilisation?

13. In regard to the rate at which the rupee should be stabilised, it has been suggested that a rate lower than the existing rate will reduce the total demand for gold in connection with the introduction of a gold standard in India. What weight, if any, should in your opinion be attached to this suggestion?

14. In regard to the remittance operations of the Government of India, a question has arisen whether they should be conducted as hitherto by the time-honoured system of sales of Council Bills in London or by means of purchase of sterling bills from Exchange Banks and firms in India as has been done since 1923. It has been suggested in favour of the older system that it gives greater facilities to the people of the United States of America for payment of their jute and other contracts made with India; what importance do you attach to this?

APPENDIX 96.

Note on the Effect of Exchange on Government Revenue and Expenditure, submitted by Mr. A. C. McWatters, C.I.E., I.C.S., Secretary to the Government of India, Finance Department.

I.—*The gain in exchange to Government in the year* 1918–9, *as compared with the pre-war rate of* 1s. 4d.

In 1918–9 all expenditure in England was treated as Imperial.

The gain or loss by exchange in the accounts at that time was calculated with reference to the average rate of exchange obtained by the Secretary of State on Council Bills. This rate in the year 1918–9 was 1*s.* 5½*d.* The total sterling net expenditure was as follows:—

	£
Revenue—	
Expenditure in England - - - - -	23,629,495
Receipts in England - - - - - -	3,228,996
Net expenditure - - - - - -	20,400,499
Capital—	
Capital expenditure - - - - - -	1,559,895

The gain in exchange to Central Revenues at 1*s.* 5½*d.* compared with 1*s.* 4*d.* on the above figures would be Rs. 2,63,16,639 in respect of *Revenue* and Rs. 20,12,265 in respect of *Capital.*

II.—*The extra return which would accrue from customs import duties if exchange were fixed at* 1s. 4d. *as compared with* 1s. 6d. *and if the following two assumptions are made:* (1) *that the volume of imports is not diminished and* (2) *that the price of imported goods rises by the full amount of* 12½ *per cent.*

Over the period April to August 1925 it has been calculated that 57 per cent. of the import duty realised was from articles paying duty on an *ad valorem* basis (including those articles for which tariff values are fixed). The remainder paid duty at specific rates.

	Lakhs.
The total customs duty on imports according to the Budget of 1925–6 is - - - - - -	37,69
Deduct Government stores - - - - - -	85
Balance - - - - - - -	36,84
57 per cent. of above = - - - - -	21,00
Increase at 12½ per cent. = - - - - -	2,62

APPENDIX 97.

Despatch from His Majesty's Secretary of State for India, No. 51, Financial, dated the 24th April 1914.

In my telegram dated 6th March 1914 I informed you that I should address you by Despatch on the subject of the Report of the Royal Commission on Indian Finance and Currency.

The Report falls naturally into three divisions, containing respectively:—

A review and criticism of the system of Indian Finance and Currency and its administration in recent years.

Recommendations on certain matters, such as the detailed arrangements for lending part of the India Office balance, the relations of the India Office with the Bank of England and the financial organisation and procedure of the India Office, on which it is scarcely necessary for me to invite Your Excellency's observations.

Conclusions and recommendations regarding many subjects which must be considered in consultation by the Secretary of State in Council and the Government of India.

2. On the first head I have little to say. A close examination of the narrative portions of the Report might suggest the amplification or qualification of an occasional passage, or a more exhaustive statement of facts; and something might also be urged in reply on the few points where the judgment expressed on the action of financial authorities here or in India departs from the general note of approval which distinguishes the Report. But it is neither necessary nor desirable to undertake this task. I welcome the Report as the first authoritative survey of the Indian financial and currency system as a whole that has been made since the Indian Currency Committee of 1898, and as a weighty pronouncement on the policy and the measures that have gradually been evolved in the course of giving effect to that Committee's recommendations. It is gratifying to me, as I am sure it will be to Your Excellency's Government, to learn that both the policy and the measures have in essentials received the approval of the Commission. I note the generous testimony borne to "the ability and skill with which the complicated duties in connection with Indian finance have been discharged by the permanent officials to whom they have been entrusted both in India and in London" (para. 7), and to the fact that "the final success achieved by the Indian authorities both in India and in this country must be recognised as a proof of the soundness of the currency scheme itself and of the measures ultimately taken for meeting the crisis" of 1907–8, the chief occasion on which the existing currency system has been put to a severe test (para. 49). As regards the few instances in which, in the Commission's opinion, other action than that taken might have been advisable, it is sufficient to bear their comments in mind and to endeavour to benefit on a future occasion by the guidance they may afford.

3. The recommendations regarding organisation and detailed procedure in this country are being carefully considered.

4. The main conclusions and recommendations requiring consultation between this Office and the Government of India are as follows:—

(a) In para. 68 the conclusion is reached that "it would not be to India's advantage to encourage an increased use of gold in the internal circulation." Read in connection with the opinion expressed in para. 74 that "it is important that the Government should continue to act on the principle of giving the people the form of currency for which they ask," this appears to be equivalent to a recommendation in favour, first, of the continuance, without modification in the direction either of stimulation or of restriction, of the present practice regarding the sale of Council Bills which, as explained on behalf of this Office, is to regulate them so that they "shall not be on such a scale as to prevent the inflow of gold to India to the extent to which it seems likely that there will be a demand for it on the part of the public" (Appendix I, page 12), and, secondly (subject to the qualification in para. 116), of the practice of issuing gold freely in normal times from the Paper Currency Department in exchange for rupees and notes for circulation in India.

This endorsement of existing practice appears to call for no comment.

(*b*) In para. 73 the Royal Commission say, after pointing out their own inability to recommend on its merits the establishment of a gold mint in India, that "if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle, either from the Indian or Imperial standpoint; provided always that the coin to be minted is the sovereign (or the half sovereign), and it is pre-eminently a question in which Indian sentiment should prevail."

The difficulty of ascertaining whether Indian sentiment desires the establishment of a mint for the coinage of sovereigns or half-sovereigns is considerable. When a resolution on the subject of a gold mint was raised in your Legislative Council on 22nd March 1912, the mover expressed his preference for a ten-rupee piece; but the resolution was withdrawn, so that no definite opinion was recorded. When in my telegram of 16th May 1912 I suggested that the views of Local Governments, Chambers of Commerce, and Presidency Banks regarding a gold mint should be ascertained, the Government of India gave reasons for not acting on the suggestion; and it was accordingly not pursued at that time. In present circumstances it is clearly desirable to proceed with an enquiry as to the existence or otherwise of a genuine Indian sentiment in favour of a gold mint, the point which the Royal Commission leave in doubt. I shall be glad if you will take the necessary steps. You will doubtless draw the attention of the bodies that you consult to the opinion expressed by the Royal Commission regarding the merits of the scheme, and to the information that is available regarding the establishment that would be required and the probable cost. (See Appendices to Interim Report of the Commissioners, Vol. I, page 215.)

(*c*) Failing the establishment of a gold mint, the Commission recommend a renewed notification of the willingness of the Government of India to receive gold bullion at the Bombay mint. I do not anticipate that you will have any objection to this; and, if this is so, it is perhaps unnecessary to postpone the issue of the notification until the question of establishing a Gold Mint has been decided, since the establishment of a Gold Mint would require little, if any, modification in any arrangements previously introduced for the receipt of gold bullion.

(*d*) In para. 89 the Commission, while holding that the Government of India ought to be alive to the possibility of the aggregate sterling reserves eventually reaching an unnecessarily high figure, recommend that "the whole profits of the silver coinage, together with any interest accruing from investments or loans made from the Gold Standard Reserve, should for the present continue to be placed to the credit of that Reserve, and that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the Reserve may have to meet than is at present possible."

I am prepared to act on this recommendation, and Your Excellency will doubtless be in favour of this course. The importance of the Commission's remarks regarding the possibility of an increase of the sterling reserves to an unnecessarily high figure must not be disregarded, since such disregard would involve the danger that the full benefit would not be obtained of the economy of the Indian currency system—which is one of its advantages. But it would be useless to attempt to forecast now the time and circumstances in which any action in the sense indicated in these remarks is likely to be desirable.

(*e*) In para. 90 the Commission recommend without hesitation that the whole of the Gold Standard Reserve should be kept in London. Subject to any observations from Your Excellency I am ready to accept this recommendation.

(*f*) Paras. 96 to 100 contain recommendations regarding the composition of the Gold Standard Reserve, viz.:—That not less than one-half should be held in gold when the total exceeds £30,000,000, and that the minimum amount to be so held should be raised as soon as possible to £15,000,000, of which £4,000,000 should be provided by the abolition of the Indian branch of the Gold Standard Reserve and the consequent transfer of sovereigns from the Paper Currency Reserve in India to the Gold Standard Reserve, for location in London as soon as convenient; £4,000,000 should be obtained from the same source in exchange for securities now held in the Gold Standard

Reserve, and the remainder should be accumulated as opportunity offers for the revision of existing investments as well as by the addition of new money.

You will doubtless be in favour of increasing the amount of gold held in the Gold Standard Reserve, and I shall be glad to learn whether the standard proposed by the Royal Commission appears to you to be suitable. I shall also be glad of your remarks as to the method proposed for attaining the standard.

The transfer of £4,000,000 in gold from the Paper Currency Reserve against the rupees now in the Indian Branch of the Gold Standard Reserve would present no difficulty in itself, but it would be advantageous that, as the abolition of that branch would diminish the elasticity of the currency system, it should be accompanied by the introduction of the new element of elasticity proposed in para. 113. This would require the amendment of the Paper Currency Act.

Similarly, the proposed transfer of £4,000,000 from the Paper Currency Reserve in exchange for securities would require legislation, in connection with which you may desire to consider the comparative advantages of making the addition to the invested portion of the Paper Currency Reserve entirely (as suggested by the Commission) in the form of sterling securities, or partly in that form and partly in rupee paper. If the latter course were adopted, a corresponding portion of the amount to be added in gold to the Gold Standard Reserve would be obtained by the realisation of sterling securities now held in that Reserve and the ear-marking of the proceeds in gold.

The provision of the further sum required to raise the total of gold in the Gold Standard Reserve to £15,000,000 will, if that standard is adopted, be proceeded with as favourable opportunity offers.

(*g*) In para. 101 the Commission, in accordance with their view (stated in para. 52) as to the importance of formulating in advance and giving publicity to the policy which it is intended to pursue in a crisis, advise "that the Government should make a public notification of their intention to sell bills in India on London at the rate of 1*s*. $3\frac{29}{32}$*d*. whenever they are asked to do so (as was actually done in 1908, and confirmed in 1909), to the full extent of their resources." I shall be glad to learn whether you are in favour of such a notification, and, if so, when, in your opinion, it should be made.

(*h*) The main recommendations regarding the Paper Currency system contained in paras. 110 to 118 are as follows:—

(A) That the Paper Currency Act should be amended so as (1) to increase the permissible maximum of the fiduciary portion of the Reserve up to the equivalent of the notes held from time to time in the Reserve Treasuries plus one-third of the notes outstanding elsewhere, (2) to increase the amount that may be held in sterling securities, (3) to enable part of the fiduciary portion to be represented by loans granted in India or London.

(B) That the securities in the fiduciary portion of the Reserve should then be at once increased by the addition of six crores of sterling securities, to be transferred from the Gold Standard Reserve as shown in (*f*) above.

(C) That the 500 rupee note should be universalised, and that, in accordance with the Commission's views expressed in para. 75 as to the importance of encouraging the use of notes, additional facilities should be granted for their encashment.

(D) That gold in the Paper Currency Reserve in India should in ordinary circumstances continue to be used as at present, but that when an exchange crisis declares itself it should be given out only on such conditions as will secure its immediate export.

(E) That for the present a portion of the Reserve should continue to be held in London in gold, but that such portion should ordinarily be limited to £5,000,000.

Some of these proposals are far-reaching and will require careful consideration. The case for an increase in the permissible maximum of

the fiduciary portion of the Reserve and for enabling a part to be represented on occasion by loans appears to me to be strong. The questions whether the maximum shall be fixed, and the addition to the permanent securities effected, in the manner proposed are more difficult.

With regard to the first question, it is to be remembered that if the plan proposed by the Commission is adopted, any encashment of notes or withdrawal of notes from the Reserve Treasuries at a time at which the non-metallic portion of the Reserve is at the maximum amount permissible will require a simultaneous diminution of that portion and adjustment of the amount of the metallic portion. The inconvenience involved in this plan, and indeed in any plan under which the invested part of a Paper Currency Reserve is limited to a percentage of the circulation instead of to a fixed sum, must not be overlooked; and it is to be remembered that such inconvenience is peculiarly great when the Reserve is scattered over a wide area.

The second question has already been referred to under (*f*) above.

I shall await with interest your observations on all the recommendations under this head.

(*i*) In para. 123 attention is called to the importance of reviewing periodically the balances held by the Government of India so as to secure all possible economy. The subject is one which necessarily comes before your notice at frequent intervals and with regard to which it may be assumed that your practice, at any given time, represents the result of the most recent experience. The present moment is scarcely favourable to any formal examination and report on the subject, partly because this would involve a postponement of the time at which your examination of the other recommendations of the Royal Commission can be completed, and partly because the recent increase in the limits on savings bank deposits introduces a new factor that will require to be carefully watched. But you will doubtless bear the subject in mind and in due course make any modifications or submit to me any proposals that may seem to you to be desirable.

(*j*) I anticipate that you will similarly desire to postpone for a time the consideration of the advantages and disadvantages of a change in the date of commencement of the financial year, to which the Commission refer in para. 128.

(*k*) In paras. 134 to 169 the advisability of granting loans in India from the Government balances, in addition to such as would be granted under the recommendations summarised in (*h*) above, is discussed. The recommendations are that such loans should be made to Presidency Banks against security; that they should be for short periods; that they should not be confined to periods of stringency; that the rate of interest should be fixed by negotiation in each case; and that the amount should be based on experience gained by cautious and tentative action. My telegram of 22nd October 1913 and my Despatch dated 23rd January 1914, No. 14 (Financial), approved provisionally a policy similar to that now recommended, except that it confined loans (in accordance with your suggestion) to periods when the Bank rate reached, or was about to reach, a high figure such as 7 or 8 per cent., and fixed the rate of interest at 1 per cent. below Bank rate. Your experience of the offer made in accordance with my telegram will help you towards forming an opinion on the policy generally and in particular on the comparative advantages of the method then adopted and the method now recommended for determining the time at which, and the terms on which, loans should be granted.

(*l*) In para. 167 attention is drawn to the possibility that the amount of rupee loans issued by your Government may with advantage be increased. This had already been the subject of considerable correspondence between the Government of India and the Secretary of State in Council, in consequence of which the amount of the rupee loan announced in your Budget for 1914–5 was fixed at five crores.

(*m*) I understand that you have under consideration the possibility of increasing the popularity of the forms of security issued by the Government of India to which attention is drawn in para. 169.

(*n*) In paras. 170 to 186 approval is expressed of the course that has been and is followed, in regard to the sale of Council Bills. Various suggestions that

have been placed before the Commission for modification of existing practice are rejected. In some passages a distinction is drawn between two views as to the limit that should govern the amount of sales; the one, that the trade demand for remittances should be met subject to not preventing an inflow of gold to India to meet the demand of the public for gold; the other, that the requirements immediate and prospective of the Secretary of State in Council in London should be the only factor to be considered. Certain points regarding the relation between these views, the possibility of conflict between their practical consequences, and the course to be taken in such an event are discussed in the enclosed note.

(o) In para. 222 it is recommended that a small expert body be appointed with instructions either to pronounce definitely against the establishment of a State or Central Bank in India at the present time or to submit a concrete scheme for its establishment. I see no reason why effect should not be given to this recommendation. If you agree, I shall be glad to receive detailed proposals from you.

5. The summary given above is not exhaustive. It is intended to assist you in the consideration of the Report by indicating the points to which it seems to me that discussion between the Government of India and myself should first be directed and the provisional conclusions which, subject to your remarks, I am inclined to adopt on certain of them. Owing to the number and complexity of the issues raised and the pressure of other work in your Finance Department, some time may elapse before you are able to furnish me with a full statement of your views, and you may wish to deal with the questions in small groups or one by one. I am anxious to meet your convenience in this respect, and am content to leave to you the choice of the order in which the discussion of the various subjects shall be taken up.

ENCLOSURE.

Note referred to in para. 4 (n).

In paras. 177 to 186, and incidentally in other passages, the Royal Commission consider what are the limits of amount within which Council Drafts should be sold. To discern clearly how far the Commission agree with the practice that has been followed in the past, what is their attitude towards suggestions for modification that have been placed before them, and what they recommend for the future, is of much importance because, as stated in para. 170, in language of which the appropriateness will be recognised by all who have close practical acquaintance with Indian finance, the sales of Council Drafts "are the central feature of the machinery by which the Indian finance and currency system is at present managed" (para. 170). The Commissioners themselves have not attempted to lay down any brief rule that can be mechanically followed; and it does not seem possible to summarise their conclusions in any such form. To obtain from them practical guidance it appears necessary to collect their observations on what was put before them as to existing practice, and on the possible modifications in detail or in principle that they considered, and to see what are the results to which such observations point:—

(a) Their summary of recent practice as explained to them in evidence is (para. 178) that it has been "to sell as long as there was a demand [within the recognised limits of price] and as long as it could be met from the resources of the Government in India." It might have been added that, as was stated in evidence (see Appendix I, page 12) and demonstrated by statistics (*ibid*, pages 21 and 84), this practice has been followed "subject to the consideration . . . . . that the sales shall not be on such a scale as to prevent the inflow of gold to India to the extent to which it seems likely that there will be a demand for it on the part of the public." It might also have been added that, as mentioned in paras. 33 and 174 of the Report, bills are sold without limit at 1*s.* 4⅛*d.* per rupee.

(b) The possible modifications considered by them were (para. 179), "that the Secretary of State should never sell more than the amount of his home charges, or that he should restrict his sales to the amount entered in the Budget estimates, or again that he should adjust the sales in such manner as to keep his home balance from rising much above the working figure of £4,000,000."

As regards the results that have followed from the practice described in (*a*) and the value of the suggestions mentioned in (*b*) the finding of the Commission is definite.

(*a*) In para. 133 they say that they find no fault with the course taken by Government in recent years, though they mention that, if the recommendations which they make as regards loans in India are approved, the occasions, though not the extent, of the transfer of money from India to London may have to be revised.

Similarly, in para. 179 they emphasise the fact that "while, in consequence of recurring surpluses over budget estimates, the London balance has been abnormally high for the last few years, no money has been brought home" by the sale of Council drafts "which has not been used or will not be used for Indian Government requirements in the United Kingdom." The same view is repeated in para. 186.

(*b*) In para. 179 they state that they are opposed to the suggested limitations on the amount of sales. They refer more than once to the important undertaking given by the Secretary of State in Council in 1904 that Bills will be sold without limit of amount at 1*s*. 4⅛*d*. per rupee, and do not indicate that they contemplate any alteration.

Thus the procedure actually followed has led to results which the Commissioners think suitable, and the alternative procedures considered by them, which would have led to different results, are rejected. But emphasis is laid (paras. 179, 180, and 186) on the view that the only real justification for the sale of drafts is to be found in the desirability of meeting the Secretary of State's requirements, immediate and prospective, in the wide sense in which (para. 186) these words are understood by the Commissioners, and not in the desirability of meeting the convenience of trade. From para. 186 it would appear that what is said on this point is intended rather to suggest an amendment of the explanations given to the public, than a change of practice, an interpretation borne out by what is said about the results of past practice.

But it is not superfluous to consider the questions: (1) how far it is probable that a rule that Council Drafts should be sold to meet the demands of trade, subject to not impeding the flow of gold to India to the amount required in India for absorption by the public, might have in the future (though it has not had in the past) a different practical result from the principle laid down by the Commission that sales should be limited by the amount of the Secretary of State's requirements, present and prospective, in the sense defined in para. 186; (2) what guidance can be gained from the Commission's Report as to the action to be taken in the event of such conflict arising.

That such a conflict is improbable is shown by the coincidence, noted above, of the results of following the first principle with those that the second principle is intended to produce and also by the fact that any increment of the trade demand, expressing itself through an application for Council drafts, tends automatically to set up an additional requirement of the Secretary of State in Council, viz. money for the purchase of silver. But, though improbable, the supposed conflict is not impossible. It is conceivable that at a time when the Secretary of State held resources sufficient, on a reasonable estimate, to meet his requirements immediate and prospective, and when a stock of gold and silver was held by the Government of India sufficient to meet the immediate and prospective demand of the public, a trade demand might arise for remittance to India and express itself in applications for Council Drafts. To grant such drafts would involve a departure from the principle laid down in para. 186. To refuse them would involve "the export to India on private account of more gold than is actually required in India for absorption by the public," a course which the Commission regard as involving disadvantages set forth in para. 176.

The difficulty of choosing between the two courses would, in part, be automatically removed by the operation of the rule (if still in force) under which sales of bills are made without limit at 1*s*. 4⅛*d*. per rupee, the proceeds being treated, if necessary, as a temporary addition to the portion of the Paper Currency Reserve held in London. If this did not completely solve the problem, the Secretary of State and the Government of India, so far as they were entirely guided by the views of the Royal Commission, would have to act in accordance with such view as they could form on the question whether an increase was more probable in the future in the Secretary

of State's requirements in London, or in the desire of the public in India to obtain gold. In the former case the decision would, no doubt, be in favour of meeting *pro tanto* applications for Council Drafts in the form of telegraphic transfers; in the latter case it would be in favour of rejecting applications, and thus forcing the applicants to send gold to India.

APPENDIX 98.

Extracts, &c., from Telegraphic Correspondence between the Secretary of State for India and the Government of India, Finance Department.

1. *Telegram from Viceroy, Finance Department, dated 8th October* 1924.

Early decision on fundamental question of policy is essential in view of the strengthening exchange, which seems likely to rise above 1*s.* 6*d.* We are convinced that the time has come when we should definitely decide against any attempt to push rupee above 1*s.* 6*d.* unless renewed fall in gold value of sterling takes place. It is now beginning to be realised generally that the stringency in the market is the direct outcome of Government action in contracting currency, or rather in placing strict limits on possibilities of expansion. The volume and importance of the opposition to this policy is increasing and was the basis for the support, not from Indian interests only, of Sir Purshotamdas's Currency Bills which have, however, not been introduced and therefore lapse. We should have difficulty in refusing to provide more generously for additions to currency even if we wished to do so, and there is serious risk of a financial crisis if we keep the screw on too tight. Moreover, we cannot afford to keep market bare of loanable funds if we are successfully to raise a rupee loan in 1925 and still another in 1926, when we have large amounts of bonds maturing.

It will follow, if this view is accepted, that during the coming busy season we should endeavour to prevent a rise above 1*s.* 6*d.* by free sales of Councils and sterling purchases both from our Treasury balances and by issuing currency against sterling purchased for Paper Currency Reserve so far as necessary. It is realised that this may raise the question whether the existing limit of Rs. 85 crores of securities in reserve may not have to be increased. It is probable that it would be desirable in any case to increase our statutory powers up to, say, Rs. 100 crores next winter, and we consider that we can justify this increase by normal expansion of the note issue which will be required to meet the increasing trade requirements of the country. The general policy which we have tentatively in mind would be—

(*a*) to retain as our primary purpose maintenance of comparatively stable rupee prices;

(*b*) to fix in our own mind on 1*s.* 6*d.* sterling as the figure at which we desire to stabilise rupee so long as this primary purpose is not endangered, which is only likely in the event of renewed falling in gold value of sterling; and

(*c*) to wait until gold and sterling are on a par before fixing the rupee by statute.

But we realise that questions of such fundamental importance should not be decided without a formal enquiry by some kind of Committee. Such a Committee might consider also other connected questions such as transfer to the Imperial Bank of the management of the Paper Currency, Remittances, &c.

We have had an opportunity of discussion with Warren, who is strongly of opinion, with which we agree, that we should announce that we are prepared to buy sterling without limit at 1*s.* 6$\frac{1}{8}$*d.* Such an announcement, we believe, would have reassuring effect and would remove the element of uncertainty, which is at present having a disturbing effect on the market and may produce a real danger.

2. *Telegram from Secretary of State to Viceroy, Finance Department, dated 10th October* 1924.

I share your view that it is of utmost importance that confidence of market should be maintained, and I am prepared to agree to further announcement as this object does not seem to have been achieved by your letter to Bengal Chamber of 25th August. It seems to me, however, that the vital consideration is not so much the actual level of exchange at the moment as the avoidance of such abnormal stringency as might threaten the financial and economic position. I feel also that work of committee, if

such is appointed, might be prejudiced if we peg upward limit of exchange, and that there is danger in announcing any definite figure as leading to conclusions on part of public which might not eventually be realised. I think, herein following underlying conception in your telegram of 1st October, that in present conditions safer criterion is to be found in the maintenance of adequate cash position of Imperial Bank, and so avoiding any untoward rise in bank rate. I cannot but think that market would be assured that you have power to do this if you forthwith announced intention of taking steps at forthcoming meeting of Legislature to raise fiduciary limit of Rs. 85 to Rs. 100 crores.

I suggest, therefore, announcement on following lines. Government of India, in consultation with the Secretary of State, have given careful consideration to the situation indicated by the recent rapid rise in exchange. The Government of India announce that they will, in consultation with the Imperial Bank, take such steps as the market position may demand to anticipate and relieve any undue stringency that may threaten or occur during this busy season, and with this end in view they propose at the next session of the Legislature to take powers to increase the limits up to which currency may be issued against securities from Rs. 85 to Rs. 100 crores.

You could also announce that, as in last season, Government intend in effecting remittances to act with a view to obviating any unduly rapid appreciation of the rupee.

I suggest we should endeavour to regulate remittances in such a way as to avoid, if possible, a greater rise than, say, $\frac{1}{8}d.$ in any one week.

3. *Telegram from Viceroy, Finance Department, dated* 11*th October* 1924.

Your telegram dated 10th October, 2872. We consider announcement suggested by you inadequate. It adds little in fact to the reply given already by the Finance Member in the Assembly to Purshotamdas' question, in which Government stated their readiness to ask for further statutory powers if required. This reply was well received as being more explicit than the terms of the letter addressed to the Bengal Chamber, but last week's events have only served more to convince us that unless there is assurance that an upper limit to the exchange can be guaranteed during the coming busy season confident market cannot be restored. The suggestion made by you for preventing an undue rise in exchange in any one week appears to us quite insufficient to meet the gravity of the situation. We do not agree that mere avoidance of abnormal stringency is the vital consideration. The element of uncertainty as to limits to which the exchange can rise has become even more vital. The matter has been in our minds for some time, but we have deferred addressing you until we had opportunity to discuss with Warren, who, after studying restriction in Bombay, strongly confirmed our view that increase in rate beyond 18*d.* is to be deprecated in the best interests of the country and of our future financial operations, and that public announcement is most desirable and indeed imperative.

The point you urge, that to peg exchange in advance of the appointing of the Committee has certain disadvantages, is fully realised by us, but we feel that greater dangers are involved in any other policy. It is, we consider, out of the question that the uncertainty should be allowed to continue for several months more. We think it highly improbable that the view could be taken by any Committee that higher exchange than 1*s.* 6*d.* is desirable. This rate is one which would not involve the disturbance of present price levels, but both Indian exports and industries would be adversely affected by any higher rate. We find already that Tata Iron and Steel Company is seriously affected by rise in exchange. The Committee would not be absolutely precluded from recommending a higher rate by a decision now to give an upward limit of 1*s.* $6\frac{1}{8}d.$ for the time being, but even if it were, we feel it our duty as a Government in existing circumstances, to arrive at a decision in advance. Further, we believe that an opportunity, which may not recur, is offered at the present moment of obtaining general acquiescence even in Bombay in a policy which will give us a permanently higher rate than 1*s.* 4*d.* gold. We regard it as of great importance, politically, quite apart from financial merits, to take commercial opinion along with us in this matter. We therefore strongly press that our proposals should be accepted.

4. *Telegram from Secretary of State to Viceroy, Finance Department, dated* 15*th October* 1924.

Exchange. Your telegrams dated 8th and 11th instant. The difficulties which you have had to face in maintaining view, with which I am in entire accord, that

As regards your comments on the course of Indian internal prices, the Calcutta index number of wholesale prices, which is more reliable and more comprehensive than the all-India index number, does not disclose any tendency to rise. The same is true of the Bombay index number. We would further point out that in the case of commodities which have a world price—e.g. cotton, steel and sugar—in recent months there has been a marked fall in the rupee price; in the case of wheat, the result of the appreciation of the rupee has been that the price has remained nearly stationary in India while it has gone up considerably in England and America.

While then we agree that the waiting policy adopted hitherto has been the right one, in our opinion it is almost, if not quite, impossible for practical reasons to maintain it. You observe that such a gradual rise in exchange as has for some time been in progress is not likely to threaten Indian trade in its broad aspects, and that remittance operations conducted on the lines suggested by you should suffice to control any excessive uprush of exchange. We must point out that the rise in exchange which has occurred already has not hitherto had any serious adverse effect on trade because it has so far not exceeded the limits which have generally been anticipated. There can be no doubt that much harm will be done by any further material rise. While it is possible, of course, to control a further rise by adjusting our remittance operations, it should be remembered that exchange has risen from 1*s.* 4½*d.* to 1*s.* 6*d.* during the last six months in spite of heavy purchases of sterling, and that such violent and frequent adjustments in our purchase procedure as will be necessary in order to keep the rise under effective control, cannot but have the most harmful effects. The rates which were accepted at the Council Bill sales of the 14th and 21st October has already furnished evidence of this. As a result of our large purchases of sterling in October the exchange market is, for the moment, quiescent, but there is no guarantee that there will not be a recurrence of similar conditions in an aggravated form during the busy season.

Moreover, it is our deliberate opinion that we cannot afford to allow the rupee to appreciate much above 1*s.* 6*d.* sterling during the coming winter, and if this is accepted the importance of an announcement immediately regarding the upper limit for exchange is obvious. Both in Calcutta and Bombay the trade is in an extreme state of tension and expectant of a Government announcement, in the absence of which gambling in exchange will continue on a large scale to the serious detriment of genuine trade interests.

Further, we regard with extreme concern the prospects of borrowing by Government unless action is taken now to restore confidence. We are convinced that unless there is some very big change in the conditions reacting on the Indian monetary situation, the issue of a rupee loan in India, of any appreciable amount, in the summer of 1925, will be an impossibility.

We reduced our demand from 20 crores to 15 crores in 1924; eventually we got only 13 crores and were lucky to get that. We cannot curtail very materially our capital programme even if we wished to do so, and we should regard as contrary to the true interests of India any considerable curtailment. We should be driven to raise a sterling loan in order to continue our capital programme. The size of the Indian sterling debt is, in our view, already sufficiently heavy for the present. In a period of bad monsoons external borrowing will be inevitable, and Indian credit abroad, if we can avoid it, ought not to be called upon to bear the strain of the issue of an external loan at a time of good monsoons when there is no difficulty in remitting money abroad, and the need for borrowing abroad only arises because the capital cannot be raised in India. Moreover, external borrowing at a time when there is uncertainty as to the future of the rupee, involves an exchange risk and becomes very speculative. We would remind you that in 1926 we have a maturity of 38 crores to deal with, and it is unthinkable that by postponing a decision in regard to exchange we should run the risk of not being able to renew a large proportion of these bonds in India.

The announcement which you suggest is, we consider, quite insufficient in itself to have any reassuring effect, as it will amount only to a reiteration of the declaration we have already made, that there will be no hesitation on the part of Government to take further powers in a matter of sterling investments in the Paper Currency Reserve. Something of greater importance is expected by the market, and we consider it better to make no announcement at all if we have nothing better to announce. Such an announcement would at once stimulate the demand, for the moment quiescent, for action on the lines of Purshotamdas' Bill, and would result in increasing opposition to our Bill when it is introduced.

We propose that as soon as announcement of our maximum rate is made, Council sales should be discontinued for the present, and all sterling purchases effected through the Imperial Bank at the rate of 1*s.* 6⅛*d.* only.

6. *Telegram from Secretary of State to Viceroy, Finance Department, dated* 19*th November* 1924.

Exchange. Your telegram of 4th November. It will have been realised that the decisions in my predecessor's telegram dated 15th October were not reached without full consideration of this important question in all its bearings, but matter has again received most careful attention in view of your further telegram.

The announcement of any maximum upward limit to exchange is likely to be regarded as the first step in the direction of eventual fixation, and arbitrary point selected would have to be justified, which it would be difficult to do with convincing effect in existing uncertainties. Having once accepted a new responsibility as regards upward point, Government could scarcely avoid, for long, complementary and more dangerous responsibility of fixing a lower limit and supporting that limit, in event of any material weakness developing, with full extent of its resources. Whatever later reaction world price movements may have on exchange, we cannot leave out of account possibility of some decline from existing level of exchange, especially in view of recent rapid rise in sterling-dollar exchange, which has already, presumably, had some influence in checking rise of rupee-sterling exchange. This tendency may manifest itself further unless counteracted by other forces if, in accordance with feeling in well-informed quarters (*vide* city notes in *Times* of 7th November), the pound moves at no very distant date to parity. If capacity of Government to handle exchange problem effectively at proper time is not to be compromised, it is necessary, in my judgment, to avoid commitments which may prove embarrassing subsequently and to retain freedom of action until greater stability in international factors has been achieved and time is favourable for taking up question of the permanent fixation of rupee exchange.

I agree with you that, as matters stand at the moment, our efforts should be directed towards averting material rise in exchange above 1*s.* 6*d.*, and I am quite prepared, in the event of exchange showing a marked tendency to break away in upward direction above that point, that we should conduct remittance operations on scale which would hold tendency in check. We should have to consider as season develops, in light of trade and market conditions, how far it is desirable to persist in such a policy if it threatens to lead to an undesirable degree of expansion. There seems no reason to think that market position will be impaired as regards future borrowings if cash balances of Imperial Bank are adequately replenished so that market conditions conform to normal monetary trend and remittance operations are conducted on lines stated above. Prospect as regards future borrowings rests much more on actual monetary conditions than on announcement of present policy, which may or may not be modified. I share your view that the restriction of the growth of India's sterling debt, so far as may be, is desirable, but it is to be remembered that the opportunity of raising the exceptionally large loans obtained in India during the time of war and afterwards arose out of special circumstances, including the heavy currency expansion between 1917 and 1920, the influence of which continued subsequently, especially during the period of severe trade depression, despite the actual contraction of currency which took place after 1920.

As main objections to your proposals, recapitulated briefly above, remain, I have decided, after fullest consideration, to adhere to decisions communicated in my predecessor's telegram dated 15th October. It is not necessary for me, in the circumstances, to examine in detail the suggestion in final paragraph of your telegram, which seems to imply that Government should so act as to stimulate rise in exchange to 1*s.* 6⅛*d.* I see objection to the adoption of any such rigid standard. It seems preferable to work on lines now in force, which make it clear that Government have no preconceived aim in the matter of exchange apart from desire to avoid excessive and rapid fluctuations. I do not understand why any announcement regarding the matter should be expected by markets, but feeling would doubtless disappear when it is clear that no such announcement is forthcoming and public are left to place their own interpretation on Government's attitude. You could make it known, of course, that attitude of Government is, broadly speaking, the same as that which has prevailed during past year, and that it is still important to avoid any positive commitments until, at any rate, gold and sterling are synonymous again and there is assured prospect of maintaining parity.

7. *Telegram from Secretary of State to Viceroy, Finance Department, dated 24th September* 1925.

Exchange. I gather that your definite view is that exchange should not throughout this busy season be allowed to rise above gold import point on 1*s.* 6*d.* basis. While final developments of monsoon may affect extent of demand for rupees, there is still possibility of persistence of tendency for exchange to rise, which could be kept down only by what would amount to unlimited remittance at fixed point, and figure of £14,000,000 mentioned previously is to be regarded, presumably, as provisional only. If demand for rupees were to continue for a prolonged period on extensive scale there might be some risk of excessive expansion if upward limit of exchange were pegged as suggested. I cannot commit myself, therefore, in present circumstances, to view that exchange should in no circumstances be permitted to rise this winter to, say, above 1*s.* $6\frac{3}{16}$*d.* or 1*s.* $6\frac{7}{32}$*d.*, though I am prepared to accept this figure provisionally as governing for the time being our remittance policy. Moreover, I feel strongly that it would not be right to present Currency Commission with a *fait accompli* at the very moment when they are commencing operations. I therefore suggest, if market conditions point that way, rate for remittances might be allowed to move shortly to 1*s.* $6\frac{7}{32}$*d.* This figure is sufficiently near 1*s.* 6*d.* gold import point, and would not indicate any change of policy.

With regard to your recommendations for the financing of remittances, the present easy money conditions indicated by low bank rate suggest that we should not resort to expansion of currency so soon. I therefore think that there would be distinct advantages in following the original idea suggested by you. Recent uncertain developments of monsoon also point to the undesirability of premature expansion. I would therefore be glad if you would reconsider Ways and Means advance or Treasury Bills to be combined with note issue expansion as season progresses and money conditions harden.

As regards Home Treasury position, existing balances will probably suffice till towards end of January, on the assumption that they will not be further strengthened by remittances.

8. *Telegram from Viceroy, Finance Department, dated 9th October* 1925.

With reference to your telegram dated 24th September, Exchange, we note that you accept provision as governing our remittance policy for the time being, that exchange should not be allowed to rise above gold import point on basis of 1*s.* 6*d.*, and it is not our wish to anticipate policy which should be pursued in the busy season later. We do deprecate, however, proposal to allow exchange to move to 1*s.* $6\frac{7}{32}$*d.* This figure is somewhat above the actual gold point, and we are convinced that our action would be misunderstood by market and would be regarded as a change of policy, and the effect almost certainly would be an avalanche of sterling sales in anticipation. Since our last telegram position has altered somewhat. Recently we have not had to purchase large amounts of sterling, and we anticipate that our balance at the bank on 16th instant will be Rs. 8 crores, less the rupee cost of any further sterling purchases. Moreover, we expect the demand for money will begin earlier than usual owing mainly to the early season for cotton, and bank rate has already been raised to 5 per cent. We think it likely that we may be able to postpone till the end of October any expansion of currency. It will, therefore, not be likely that expansion of currency will coincide with very easy money conditions. It is possible at the same time that it may be convenient to combine policy proposed by us with Ways and Means advances from the bank later on. We will bear this possibility in mind and watch situation.

9. *Telegram from Secretary of State to Viceroy, Finance Department, dated 19th March* 1926.

Pronounced weakening of exchange recently makes it desirable that we should be prepared for possibility that exchange may decline to lower gold point as determined on basis of 18*d.* gold rupee, which may presumably be taken at 1*s.* $5\frac{25}{32}$*d.* telegraphic in present conditions.

2. Recent policy of holding upper limit of exchange at 1*s.* $6\frac{3}{16}$*d.* was directed towards the establishment of an equilibrium between external and internal prices, which would facilitate stabilisation of rupee at 1*s.* 6*d.* gold. I recognise inconvenience

of Government having to intervene actively to maintain the lower limit of exchange at a time when the Currency Commission is sitting, but when Government decided to peg upper limit of exchange the inconvenience of positive control was accepted definitely. Result has been an expansion of currency which it may be necessary to draw off if exchange relapses to lower gold point by sale of reverses. You will agree that this should, if possible, be avoided as the sale of reverses would be open to much public misunderstanding and misrepresentation. I suggest, therefore, for consideration, whether before this stage is reached some contraction of note issue should not, with a view to stiffening market in India, be effected forthwith against re-transfer to Treasury of part of sterling securities earmarked this winter to currency reserve. I shall be glad to receive at an early date an appreciation of exchange prospects and your recommendations on above matters.

APPENDIX 99.

Letter from Messrs. Thomas Duff & Co., Ltd., Calcutta, to the Joint Secretaries to the Royal Commission on Indian Currency and Finance, dated the 5th January 1926.

We are in receipt of letter No. 697, dated 30th ultimo, and in reply to same detail below the figures of increases granted since the year 1913 to the wages of our workers, together with the months and years in which successive increases were granted :—

Per cent. of increase.	Month.	Year.	
10 per cent. - -	May	1918.	
10 per cent. - -	September	1919	20 per cent. above pre-war.
20 per cent. - -	January	1920	40 ,, ,, ,,
10 per cent. - -	October	1920	50 ,, ,, ,,

A "Khoraki" payment has also been made for some years and this special remuneration was sanctioned to make up, to some extent, for jute mills having to resort to a working week of four days only. This "Khoraki" payment automatically ceases when the mills are in a position to increase output.

The details of "Khoraki" paid and the dates when started are as under :—

	April 1919.	April 1921.
	Annas.	Annas.
Shifters - - - - - -	3	4
Workers drawing less than 10 annas per day -	4	6
Workers drawing more than 10 annas but less than Re. 1 per day - - - -	6	8
Workers drawing more than Re. 1 per day -	8	10

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